

GOVERNOR'S **BUDGET HIGHLIGHTS** 2007-08



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STATE OF CALIFORNIA

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INTRODUCTION

When Governor Schwarzenegger took office in November of 2003, the state faced a structural budget crisis of unprecedented proportions. A review of state finances projected that California was on a path to spend \$16.5 billion more than the General Fund revenue it would take in this year. In contrast, the Governor's Budget for 2007-08 proposes to limit General Fund spending to the amount of revenue the state will collect, with the exception that it proposes to use \$840 million of funds available from previous years to pre-pay debt. By eliminating the state's net operating deficit, by setting aside a total reserve of \$2.1 billion and by eschewing tax increases and new budgetary borrowing, this budget puts California on the path to full fiscal recovery.

PAYING DOWN THE DEBT

In 2004-05 the state used the Economic Recovery Bonds (ERBs) authorized by the voters in Proposition 57 to refinance \$11.3 billion of budgetary debt inherited from the prior administration. In addition to the ERB borrowing, as of the end of the 2004-05 budget year, the state owed \$6.9 billion for other budgetary borrowing, such as debt to

local governments for un-reimbursed mandate claims and borrowing from Proposition 42 and other special funds. Repaying the bonds and the other budgetary debt has been a high priority of the administration and the Legislature. Specifically, the Budget Act of 2005 repaid budgetary borrowing of \$1.4 billion and the Budget Act of 2006 repaid \$2.8 billion, including \$472 million in pre-payments of the ERBs.

This budget proposes \$1.6 billion in pre-payments of the ERBs and \$88 million of other budgetary debt re-payments. This will bring the total amount set aside to repay the ERBs to \$7.4 billion in just the four years since the bonds were first issued. As a result, we now project that the ERBs will be fully retired in August of 2009, which is 14 years ahead of schedule.

PROTECTING PRIORITIES

This budget funds key priorities, including:

- Fully funding the Proposition 98 guarantee at \$56.8 billion. This is an increase of \$1.8 billion from all funds and \$378 million from the General Fund. The General Fund share of the Proposition 98 guarantee amounts to 40 percent of total General Fund expenditures in 2007-08.
- Fully funding the Governor's Compacts with Higher Education (\$346 million General Fund) and the state Judiciary and trial courts (\$147 million General Fund).
- Providing \$52 million to expand Career Technical Education (CTE) course offerings and programs.

In an ever-evolving economy, Californians need multiple pathways to rewarding and productive careers. The Administration remains committed to expanding opportunities for high school and community college students to take high-quality, academically rigorous CTE courses.

- Fully funding the \$217 million cost of providing cost-of-living adjustments for aged, blind and disabled SSI/SSP recipients.
- Providing \$58 million in 2006-07 and \$193 million in 2007-08 for a comprehensive Sex Offender Management Plan including funds to implement Proposition 83 ("Jessica's Law"), the Governor's High Risk Sex Offender Task Force recommendations, and recently enacted legislation.
- Providing necessary funds for the California Department of Corrections and Rehabilitation for the federal court-appointed Receiver to improve the state's prison health care delivery system. Specifically, the Budget proposes to increase the budget set-aside for prison health care from \$100 million to \$150 million in 2007-08.
- Providing \$36 million to begin to implement California's landmark Greenhouse Gas Reduction Efforts.
- Providing \$95 million for the most advanced research in the world, as part of the Governor's Strategic Research and Innovation Initiative. The Budget provides \$30 million in lease revenue bonds for the Helios Project, \$40 million for the Energy Biosciences Institute, \$19.8 million for the California Institutes for Science and Innovation, and \$5 million for the Petascale Supercomputer project.

These funds have the potential to leverage private and federal funding in excess of \$1 billion.

- Expanding health care coverage by providing \$36 million (\$17 million General Fund) and 9.4 positions in 2007-08 for SB 437 implementation activities and enrollment increases. SB 437 (Chapter 328, Statutes of 2006) establishes a two-county pilot program to allow parents to self-certify income and assets when enrolling their children into Medi-Cal and during the annual eligibility review process. SB 437 allows self-certification of income at the annual eligibility review process for the Healthy Families Program (HFP). In addition, when new children apply for Medi-Cal and are found ineligible, but appear eligible for the HFP, counties will be able to enroll them in the HFP so that the child's health coverage is not delayed.
- Including \$2 million to improve the state's food-borne illness emergency response capability, as well as \$1.5 million to begin implementing the new environmental contaminant biomonitoring program authorized by Chapter 599, Statutes of 2006 (SB 1379). This funding will be used to develop sampling design and establish parameters for this program. This proposal is a collaborative effort between the Department of Public Health, Office of Environmental Health Hazard Assessment, and the Department of Toxic Substances Control.
- Providing funding to implement two bills chaptered in 2006 that will provide millions of low-income Californians with discounted prescription drugs: Chapter 619, Statutes of 2006 (AB 2911), will deliver prescription

drugs at prices up to 40 to 60 percent below retail prices for generic and brand name drugs to individuals. Chapter 720, Statutes of 2006 (AB 2877), authorized the California Rx Prescription Drug Website, which will provide information to Californians about available options for obtaining prescription drugs at affordable prices.

REDUCING THE OPERATING DEFICIT

In order to fund these and other priorities within a balanced budget while pre-paying debt and maintaining a sizeable reserve, the budget proposes the following major policy changes:

- Reducing General Fund costs by \$1.111 billion by expanding the uses of revenues sources for public transportation to:
 - Cover public transportation services currently provided by the schools (\$627 million, ongoing);
 - Cover public transportation services currently provided by Regional Centers to their developmentally disabled clients (\$144 million, one-time), and;
 - Shift a portion of the revenue to a special fund for debt service on general obligation bonds issued for transportation projects (\$340 million, one-time).
- Revenues of \$506 million from approval of pending Indian gaming compacts.
- Savings of \$324 million related to reforms in CalWORKs-the state's welfare-to-work program.

INTRODUCTION

- Utilizing \$269 million in Proposition 98 funds for Stage 2 Child Care.
- Reimbursing \$200 million in General Fund spent for flood protection and levee repair with bond funds approved for that purpose by voters in last fall's election.
- Revenues of \$165 million by repealing the Teacher Tax Credit.
- Suspending the July 1, 2007, CalWORKs cost-of-living adjustment, resulting in savings of \$140 million.
- Savings of \$100 million resulting from parole modifications for non-serious/non-violent offenders (\$53 million), elimination of 90-day diagnostic evaluations in adult institutions (\$4 million), the shift of certain juvenile offender populations to the counties (\$33 million), and elimination of funding for the Juvenile Justice Community Reentry Challenge Grant (\$10 million).
- Budget reduction of \$100 million to be allocated to departments. The Department of Finance will work with Agency Secretaries and other cabinet members to achieve additional General Fund savings of \$100 million in 2007-08.
- Savings of \$75 million resulting from providing purchasing power protection for retired teachers as a vested benefit while reducing state's contribution to the State Teachers' Retirement System Supplemental Benefits Maintenance Account from 2.5 percent to 2.2 percent of teacher payroll.

- Eliminating state funding for the Integrated Services for Homeless Adults with Serious Mental Illness program, resulting in ongoing savings of \$55 million.
- Revising the bundled reimbursement rate for intermediate care facilities for the developmentally disabled to include Day Programs and Non-Medical Transportation, in order to obtain \$44 million in additional annual federal funding to replace the General Fund costs of providing those services.
- Savings of \$44 million in 2007-08 and \$88 million annually thereafter by switching the basis for Medi-Cal pharmaceutical reimbursement from the Average Wholesale Price to Average Manufacturers Price, thus using the actual cost of production and minimizing any potential cost-shifting to Medi-Cal from other drug purchasers.
- Revenues of \$35 million by making permanent the use tax on vessels, vehicles, and aircraft brought into the state less than one year from purchase.
- Savings of \$25 million on a one-time basis in 2007-08 by reducing Proposition 36 funding by \$60 million and using a portion of this funding to provide a net increase of \$35 million to the Substance Abuse Offender Treatment Program, allowing the state to pursue reforms to drug treatment programs and services that lead to improved program performance and patient outcomes.

In addition, the Administration has exercised restraint in funding program growth. Total General Fund spending proposed in the budget is \$103.1 billion, which is \$1 billion, or less than one percent, more than in the current year.

This represents the lowest rate of growth in General Fund spending in five years.

While these actions will bring about a balanced budget in 2007-08 with a substantial reserve and no net operating deficit, spending pressures will push the budget back into deficit in subsequent fiscal years if left unchecked.

BUDGET REFORM

While this budget proposes ongoing spending that is aligned with ongoing revenues, the structural deficit can re-emerge as early as the next budget year. To prevent this, the state needs to find ways to (1) keep spending in check in the long run and (2) reduce the volatility of state revenues. Toward these ends the Governor will work with the Legislature to develop and enact real budget reform.

THE CALIFORNIA STRATEGIC GROWTH PLAN

In November 2006, California voters approved the landmark \$37.3 billion Strategic Growth Plan (SGP) and a \$5.4 billion bond initiative for natural resource protection, water, and parks. The Governor proposes to complete the financing plan to rebuild California's infrastructure through 2016 by addressing the critical gaps that remain.

To continue rebuilding California, the Governor is proposing a combination of new general obligation, lease-revenue and self-liquidating revenue bonds totaling \$43.3 billion to finance the SGP through 2016:

- \$9.5 billion for state and local correctional facilities;
- \$11.6 billion for K-12 education facilities;
- \$11.6 billion for Higher Education facilities;
- \$6.0 billion for water supply and management;
- \$2.0 billion for the state's judiciary facilities; and
- \$2.6 billion for other public service infrastructure.

Combined with the bonds already approved by the voters, other existing funding sources and leveraged funding through the use of public private partnerships, total funding for the SGP will be \$211 billion.

The California SGP includes additional accountability and performance measures to ensure that all the bonds are used appropriately and effectively to meet the goals approved by the Governor, the Legislature and the voters.

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THE ECONOMY

The California and national economies got off to fast starts in 2006, but declining housing sectors increasingly weighed on the economies as the year progressed. While on the whole, 2006 was a better year than 2005, neither the state nor the nation will be going into 2007 with much momentum. Economic growth will likely be modest in the first half of 2007, but the rest of the year should bring better growth as state and national housing sectors pull out of their downturns. Both economies should improve further in 2008. The major risks to this outlook are a longer, deeper housing slump and higher mortgage rates (Figure ECO-01).

THE NATION

The outlook for the national economy is slowing growth in 2007 followed by an improvement in 2008. Real GDP is projected to grow 2.4 percent in 2007 and 2.9 percent in 2008, as compared to 3.3 percent in 2006. Nonfarm payroll employment is forecast to increase 1.1 percent in 2007 and 1.2 percent in 2008, as compared to 1.4 percent in 2006.

Figure ECO-01
Key Economic Indicators
 (Annual Percent Change, except for New Housing)

	2006	Forecast	
		2007	2008
U.S. Real Gross Domestic Product	3.3	2.4	2.9
California Nonfarm Employment	1.8	1.2	1.6
California Personal Income	6.6	5.7	5.4
California Consumer Price Index	3.9	2.6	2.4
California New Housing Units (Thousands of Total Units)	168	152	165

Forecast based on data available as of November 2006

CALIFORNIA

The outlook for the California economy is also for slowing growth in 2007 followed by a modest improvement in 2008. Personal income is projected to grow 5.7 percent in 2007 and 5.4 percent in 2008, as compared to 6.6 percent in 2006. Nonfarm payroll employment is forecast to increase 1.2 percent in 2007 and 1.6 percent in 2008, as compared to 1.8 percent in 2006.

REVENUE ESTIMATES

California revenues were exceptionally strong in 2006, but are projected to grow more moderately in 2007 and 2008. For the budget year, revenues are expected to grow to \$101 billion, a 7.2-percent increase from 2006-07.

MAJOR REVENUE SOURCES

General Fund revenues and transfers represent 79 percent of total revenues. The remaining 21 percent are special fund revenues dedicated to specific programs. Figure REV-01 summarizes the General Fund forecast for 2006-07 and 2007-08 and provides a preliminary report of receipts for 2005-06, compared to the 2006 Budget Act forecast.

Personal income tax revenues are estimated to be \$52 billion in 2006-07 and \$55.6 billion in 2007-08. Strong growth in tax receipts from high-income taxpayers in 2005 served as the basis for this projection. Capital gains grew 40 percent in 2005 and are expected to grow 10 percent in 2006 and 5 percent in 2007. The 2007-08 estimate includes \$165 million from repealing the teacher tax credit and \$69 million from additional tax enforcement.

Figure REV-01
2007-08 Governor's Budget
General Fund Revenue Forecast
Summary Table
Reconciliation with the 2006-07 Budget Act
(Dollars in Millions)

Source	Budget Act	Governor's Budget	Change Between Forecasts	
<u>Fiscal 05-06</u>				
Personal Income Tax	\$49,555	\$49,877	\$322	0.6%
Sales & Use Tax	27,211	27,581	\$370	1.4%
Corporation Tax	10,484	10,316	-\$168	-1.6%
Insurance Tax	2,247	2,202	-\$45	-2.0%
Alcoholic Beverage	315	318	3	1.0%
Cigarette	117	118	1	0.9%
Other Revenues	2,845	3,022	\$177	6.2%
Transfers	<u>-25</u>	<u>-7</u>	<u>\$18</u>	-72.0%
Total	\$92,749	\$93,427	\$678	0.7%
<u>Fiscal 06-07</u>				
Personal Income Tax	\$50,885	\$52,042	\$1,157	2.3%
Sales & Use Tax	28,114	27,775	-\$339	-1.2%
Corporation Tax	10,507	10,311	-\$196	-1.9%
Insurance Tax	2,340	2,220	-\$120	-5.1%
Alcoholic Beverage	316	321	5	1.6%
Cigarette	118	121	3	2.5%
Other Revenues	2,232	2,371	\$139	6.2%
Transfers	<u>-630</u>	<u>-642</u>	<u>-\$12</u>	1.9%
Total	\$93,882	\$94,519	\$637	0.7%
Change from Fiscal 05-06	\$1,133	\$1,092		
% Change from Fiscal 05-06	1.2%	1.2%		
<u>Fiscal 07-08</u>				
Personal Income Tax	\$53,167	\$55,598	\$2,431	4.6%
Sales & Use Tax	29,656	29,347	-\$309	-1.0%
Corporation Tax	10,858	10,816	-\$42	-0.4%
Insurance Tax	2,393	2,354	-\$39	-1.6%
Alcoholic Beverage	317	325	8	2.5%
Cigarette	115	122	7	6.1%
Other Revenues	2,829	3,101	\$272	9.6%
Transfers	<u>-18</u>	<u>-386</u>	<u>-\$368</u>	2044.4%
Total	\$99,317	\$101,277	\$1,960	2.0%
Change from Fiscal 06-07	\$5,435	\$6,758		
% Change from Fiscal 06-07	5.8%	7.2%		
Three-Year Total			\$3,275	

Sales and use tax revenue is forecast at \$27.8 billion in 2006-07 and \$29.3 billion in 2007-08. Taxable sales grew 7.4 percent in 2005, and are expected to increase 4.5 percent

in 2006 and 3.1 percent in 2007. The 2007-08 estimate includes the effects of proposals to make permanent collection of use tax on vehicles, vessels, and aircraft brought into the state within one year of purchase (\$35 million) and additional enforcement activities by the Board of Equalization (\$12.1 million).

Corporation tax revenues are expected to total \$10.3 billion in 2006-07 and \$10.8 billion in 2007-08. Taxable profits are expected to moderate in 2006 and 2007 after substantial growth in 2005. The 2007-08 forecast includes \$8.5 million from tax enforcement activities.

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THE CALIFORNIA STRATEGIC GROWTH PLAN

Last year, the Governor and Legislature initiated the first phase of a comprehensive Strategic Growth Plan (SGP) to address California's critical infrastructure needs over the next 20 years. California faces over \$500 billion in infrastructure needs to meet the demands of a population expected to increase by 23 percent over the next two decades. In November 2006, the voters approved the first installment of that twenty-year vision to rebuild California. The Governor's Budget includes \$13.7 billion of the recently approved bonds to immediately begin building California for future generations.

To complete the SGP, the Administration proposes additional funding for critical infrastructure improvement between now and 2016. With these augmentations, the SGP will fulfill the comprehensive the-year infrastructure plan to rebuild California begun last year. As reflected in Figure INF-01 \$29.4 billion of new general obligation bonds and \$13.9 billion of additional lease-revenue and self-liquidating revenue bonds are proposed to augment the existing funds for the SGP through 2016. Coupled with additional authority to engage in public-private partnerships and utilize design-build concepts, the already authorized and proposed new bonds will leverage an additional \$20 billion in significant infrastructure investments. The SGP

Figure INF-01
**Strategic Growth Plan
2006-2016
(Dollars in Billions)**

Program	Proposed New Bonds			Other Funding Sources		Total
	General Obligation	Lease ¹ Revenue	Self- ² Liquidating Revenue	Existing ³	New ⁴	
Public Safety		9.5 ⁵		0.3	1.1	10.9
Education-K-12	11.6			17.4 ⁶		29.0
Education-Higher Ed	11.5	0.1		10.1		21.7
Flood Control/ Water Supply	4.0		2.0	25.0		31.0
Transportation				87.3	17.0	104.3
Judiciary	2.0				2.0	4.0
Other Natural Resources				3.1		3.1
Housing				2.9		2.9
Other Public Service	0.3	2.3		2.2		4.8
Infrastructure						
Totals	\$29.4	\$11.9	\$2.0	\$148.2	\$20.1	\$211.6

¹ Lease revenue bonds are supported by rental payments that result from leasing the financed asset.

² Self-liquidating revenue bonds are supported from a new revenue stream generated by the financed asset.

³ Existing Funding Sources column includes already authorized bonds, special funds, General Fund and estimated federal and local matching dollars from existing shared funding programs.

⁴ New Fund Sources includes estimated additional funding from public-private partnerships and new state-local shared programs.

⁵ Included in this amount is an amount that may be used to pay debt service on local facilities.

⁶ In addition, K-12 will provide \$5 billion in local match over multiple years beyond the SGP period for the Charter School Facilities and Career Technical Education Facilities programs, as authorized in statute.

proposes that the new general obligation bonds be placed on the ballot in the 2008 and 2010 elections as shown in Figure INF-02 and that all bonds be issued in a manner that maintains a prudent debt-ratio.

Figure INF-02
Strategic Growth Plan
2006-2016
Election Year Proposals
General Obligation Bonds
(Dollars in Billions)

	2008	2010	2012	2014	Totals
Program					
Education-K-12	\$6.5	\$5.1			\$11.6
Education-Higher Ed	7.2	4.3			11.5
Water Supply	4.0				4.0
Judiciary	2.0				2.0
Other Public Service Infrastructure	0.3				0.3
Total	\$20.0	\$9.4	\$0.0	\$0.0	\$29.4

The SGP proposes additional funding for:

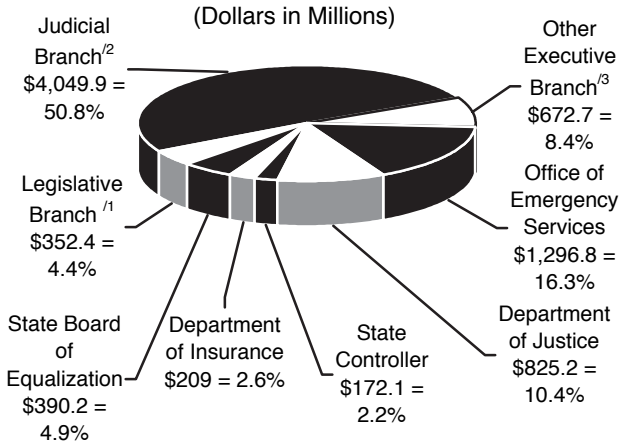
- **Public Safety**—\$9.5 billion for additional capacity for local jails and the state’s prison system to ensure safety for officers, staff and inmates.
- **Education K-12**—\$11.6 billion for new construction, modernization, charter schools and career technical education to meet a growing student population.
- **Higher Education**—\$11.5 billion for additional facilities to ensure the state’s higher education segments can meet the upcoming enrollment demands.
- **Water Supply**—\$6.0 billion for additional water supply to meet water management challenges.
- **Judiciary**—\$2.0 billion for the state’s local trial courts to provide safe and modern facilities.
- **Other Public Services**—\$2.6 billion for facilities that provide the delivery of valuable services to California’s population.

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LEGISLATIVE, JUDICIAL, AND EXECUTIVE

The 2007-08 Governor's Budget proposes a total of \$8 billion (\$3.8 billion General Fund) to support the various departments within the Legislative, Judicial, and Executive branches of government. The amount proposed is \$296 million (\$288.2 million General Fund) or 3.9 percent above the revised 2006-07 Budget. Funding totals for these departments are shown in Figure LJE-01:

Figure LJE-01
**Total Legislative, Judicial, & Executive
Branch Expenditures for 2007-08
All Funds**



/1 Includes the Legislature, Legislators' Retirement System Contributions, and Legislative Counsel Bureau.

/2 Includes the State Judiciary, Trial Courts, Commission on Judicial Performance, and Judges' Retirement System Contributions.

/3 Includes the Governor's Office, State Chief Information Officer, Office of the Inspector General, Office of Planning and Research, Office of the Lieutenant Governor, Gambling Control Commission, Secretary of State, State Treasurer, Debt and Investment Advisory Commission, Debt Limit Allocation Committee, Industrial Development Financing Advisory Commission, Tax Credit Allocation Committee, Alternative Energy and Advanced Transportation Financing Authority, Health Facilities Financing Authority, School Finance Authority, and General Obligation Bonds (Legislative, Judicial, and Executive).

Change Table LJE-01 illustrates the major spending changes proposed within the Legislative, Judicial, and Executive branches of government.

Change Table LJE-01

Legislative, Judicial, and Executive Agency - Changes by Broad Categories

	2006-07			2007-08		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
2006 Budget Act	\$3,416,826	\$4,029,988	16,083.1	\$3,416,826	\$3,942,490	16,083.1
Workload Adjustments						
Augmentation Based on Estimated State	--	--	--	130,114	--	--
Appropriations Growth Rate for Trial Courts						
Establish Office of State Information Officer	--	--	--	--	7,874	46.5
HAVA VoteCal Replacement of Existing Voter Registration Database	--	--	--	--	6,915	6.2
Help America Vote Act Revised Spending Plan	--	--	--	--	3,540	--
Enrollment/Caseload/Population	--	4,026	--	--	15,005	--
Employee Compensation/Retirement	78,461	36,762	--	77,137	35,193	--
Expiring Programs or Positions	--	--	--	-26,997	-34,726	-161.8
One-Time Cost Reductions	--	--	--	-12,900	-19,539	--
Full-Year Cost of New Programs	--	--	--	46,235	4,358	--
Other Workload Adjustments	9,281	98,047	9.3	123,449	173,676	269.4
Totals, Workload Adjustments	\$87,742	\$138,835	9.3	\$337,038	\$192,296	160.3
Policy Adjustments						
Expanding DNA's Crime-Solving Reach	--	--	--	1,183	1,308	2.8
New Trial Court Judgeships	--	--	--	27,767	--	--
Other Policy Adjustments	--	-1,289	-19.7	9,929	19,950	87.4
Totals, Policy Adjustments	\$0	-\$1,289	-19.7	\$38,879	\$21,258	90.2
Infrastructure Adjustments	\$0	\$240	--	\$0	\$19,527	--
Total Adjustments	\$87,742	\$137,786	-10.4	\$375,917	\$233,081	250.5
Governor's Budget	\$3,504,568	\$4,167,774	16,072.7	\$3,792,743	\$4,175,571	16,333.6

* Dollars in Thousands

Specifically, the Legislative, Judicial, and Executive budget includes notable adjustments for the following departments:

JUDICIAL BRANCH

The Governor's Budget proposes \$3.7 billion (\$2.3 billion General Fund) for the Judicial Branch, \$426.7 million (\$353.5 million General Fund) for the State Judiciary and \$3.3 billion (\$1.9 billion General Fund) for the Trial Courts, which includes the following adjustments:

Annual Growth Factor Adjustment—An augmentation of \$146.8 million General Fund to reflect the application of the

annual growth factor adjustment based on the year-over-year change in the State Appropriations Limit. This amount includes \$130.1 million for the Trial Courts, consistent with the statutory requirement, and \$16.7 million for the State Judiciary. This augmentation acknowledges the need for the Judicial Branch, as a co-equal branch of government, to set its own priorities and manage its own day-to-day operations and budget.

New Judgeships—An increase of \$27.8 million General Fund in 2007-08 and \$74.3 million in 2008-09 to add 100 new judgeships over a two-year period beginning in April 2008. This augmentation will increase access to the courts, address court backlogs, and provide more equitable justice throughout the state. The expenditure of these funds is restricted until legislation authorizing new judgeships is enacted.

OFFICE OF THE STATE CHIEF INFORMATION OFFICER

The Governor's Budget proposes \$7.9 million Technology Services Revolving Fund to establish the Office of the State Chief Information Officer, pursuant to Chapter 533, Statutes of 2006. Pursuant to this new law, the State Chief Information Officer will be responsible for advising the Governor on the strategic management and direction of the state's information technology resources; minimizing overlap, redundancy, and cost in state operations; coordinating activities of agency information officers and the Director of Technology Services; improving organizational maturity and capacity in the effective management of information technology; and establishing performance management and ensuring state information technology services are efficient and effective. The State

Chief Information Officer will assume responsibility for review and oversight of projects and department-specific activities, a function that has been the responsibility of the Department of Finance. Accordingly, the Department of Finance staff who have been performing this function will move to the Office of the State Chief Information Officer at the start of the new fiscal year.

DEPARTMENT OF JUSTICE

The Governor's Budget proposes \$825.2 million (\$402.7 million General Fund) for the Department of Justice (DOJ), which includes the following adjustment:

Expanding DNA's Crime-Solving Reach—An augmentation of \$2.5 million (\$1.2 million General Fund) to expand the capacity of the DNA program established pursuant to the DNA Fingerprint, Unsolved Crime and Innocence Protection Act (Proposition 69). This augmentation will allow the DOJ to implement a DNA Live Scan Automation Project in all 58 counties, establish a California Criminalistics Institute in Southern California, and continue the Cal DNA Databank Casework Program at its current level. This will help address DOJ's capacity needs in order to accommodate the additional sample load expected when the all-felon arrestees will be required to submit DNA samples pursuant to the provisions of Proposition 69 beginning in 2009.

DEPARTMENT OF INSURANCE

The Governor's Budget includes expenditures of \$209 million for the Department of Insurance, which includes the following augmentations:

Combating Insurance Fraud—An increase of \$5.1 million Insurance Fund for grants to support insurance fraud investigation, prosecution, and education activities, which includes \$1.4 million for the Urban Grant Program to combat organized automobile insurance fraud, \$1.6 million for grants to local District Attorneys to combat automobile insurance fraud that is not part of organized crime, \$1.3 million to continue grants to combat workers compensation fraud by employers and medical providers, and \$750,000, one-time, for grants to local District Attorneys to enhance prosecution of financial abuse crimes and educate consumers regarding financial abuse related to life insurance and annuity products.

Intervenor Compensation—An increase of \$780,000 Insurance Fund for Intervenor compensation costs. Intervenor act on behalf of consumers to resolve conflicts with insurers. Statute provides for compensation to Intervenor as determined by the Insurance Commissioner or a judge when the conflict is resolved, settled, or adjudicated.

BOARD OF EQUALIZATION

The Governor's Budget proposes \$390.2 million (\$219.7 million General Fund) for the Board of Equalization (BOE), which includes the following adjustment:

U.S. Customs Program—An augmentation of \$1.1 million (\$696,000 General Fund) to expand the U.S. Customs

Program from 5 positions to 16.5 positions. The Program collects California import data from the Department of U.S. Customs and Border Protection and matches it against sales and use tax records that California-based purchasers provide to the BOE. When the records comparison indicates a purchaser failed to pay use taxes on an imported product, the Program initiates collection activities. The BOE estimates the proposed positions will generate \$15.2 million in revenues in 2007-08, of which \$9.4 million will accrue to the General Fund and \$5.8 million to local governments.

SECRETARY OF STATE

The Governor's Budget includes \$92.6 million (\$36.2 million General Fund) for the Secretary of State, which includes the following adjustments:

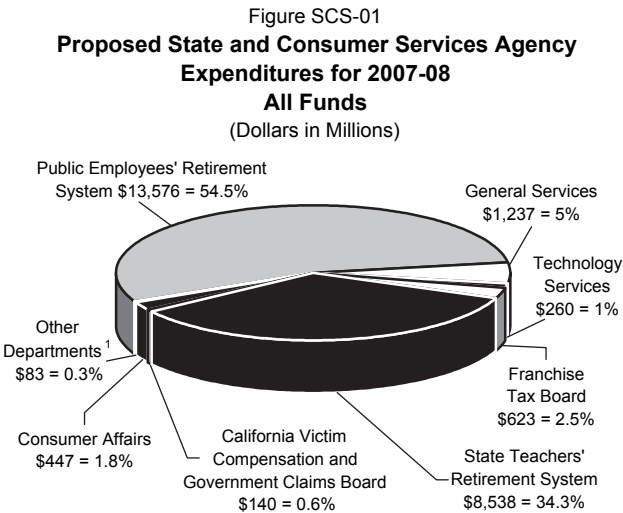
Safe at Home Program—An increase of \$292,000 to expand the existing Safe at Home program pursuant to Chapter 639, of the Statutes of 2006 (SB 1062). The Program, which provides services to victims of domestic violence and stalking, is now expanded to include victims of sexual assault. The funds will provide for staff, materials, mail bins, equipment, and printing materials for program enrollment. The Safe at Home Program allows local agencies to respond to requests for public records without disclosing a program participant's residence address contained in any public record, and otherwise provides for confidentiality of identity for eligible program participants.

Help America Vote Act—An augmentation of \$10.4 million federal funds to continue the implementation of Help America Vote Act (HAVA). Of this amount, \$6.5 million is to implement

the new federally required VoteCal system which replaces the existing voter registration data base, and \$3.9 million is for other HAVA implementation activities including funds for assistance to disabled voters, interim voting systems, and voter education materials.

STATE AND CONSUMER SERVICES

The Governor's Budget proposes \$24.9 billion (\$574.9 million General Fund) for the State and Consumer Services Agency (SCSA). This represents a 7-percent increase in total funds and 4-percent decrease in General Fund over the revised 2006-07 Budget. Funding totals by department are shown in Figure SCS-01.



¹ Other Departments include: Secretary for State and Consumer Services (\$3), Seismic Safety Commission (\$3), Department of Fair Employment and Housing (\$24), California Science Center (\$27), State Personnel Board (\$24), and the Fair Employment and Housing Commission (\$1).

Change Table SCS-01 illustrates the major changes proposed to SCSA spending proposed in the Governor’s Budget.

Change Table SCS-01						
State and Consumer Services Agency - Changes by Broad Categories						
	2006-07			2007-08		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
2006 Budget Act	\$576,382	\$22,346,534	15,610.7	\$574,640	\$22,199,332	15,610.7
Workload Adjustments						
BAR - Visible Smoke Test (AB 870)	--	--	--	--	12,265	8.6
Earthquake Research Grants	--	--	--	--	2,000	1.0
Improve Housing Case Processing	--	--	--	873	--	6.7
Operational Startup for Phase II Project	--	--	--	1,857	--	4.3
Professional Fiduciaries Bureau Establishment	--	--	--	--	1,055	4.8
Enrollment/Caseload/Population	--	-60,646	--	--	1,136,342	--
Employee Compensation/Retirement	25,640	43,543	--	24,282	39,704	--
Expiring Programs or Positions	--	--	--	-11,409	-7,627	-192.9
One-Time Cost Reductions	--	--	--	-5,284	-7,217	--
Full-Year Cost of New Programs	--	--	--	--	9,228	--
Other Workload Adjustments	12,239	40,634	103.4	-37,002	830,901	274.1
Totals, Workload Adjustments	\$37,879	\$23,531	103.4	-\$26,683	\$2,016,651	106.6
Policy Adjustments						
Green Building Action Plan Resources	--	--	--	--	3,398	4.7
Office of Information Security and Protection	--	--	--	1,701	--	14.0
Other Policy Adjustments	--	--	--	22,882	53,404	303.1
Totals, Policy Adjustments	\$0	\$0	--	\$24,583	\$56,802	321.8
Infrastructure Adjustments	-\$11,937	\$199,262	--	\$2,325	\$55,925	--
Total Adjustments	\$25,942	\$222,793	103.4	\$225	\$2,129,378	428.4
Governor's Budget	\$602,324	\$22,569,327	15,714.1	\$574,865	\$24,328,710	16,039.1

* Dollars in Thousands

Specifically, the SCSA includes notable adjustments for the following departments:

SECRETARY FOR THE STATE AND CONSUMER SERVICES AGENCY

Office of Information Security and Protection—

The Governor’s Budget includes \$1.7 million General Fund and 14 positions to support the California Office of Information Security and Protection within the SCSA. This reflects

the transfer of privacy protection responsibility from the Department of Consumer Affairs and information security responsibility from the Department of Finance. The Office will be responsible for leading state agencies in securing and protecting the state's information by identifying critical technology assets and addressing vulnerabilities, deterring identify theft and security incidents, sharing information and technology lessons promptly, enhancing government response and recovery, and developing consumer education programs.

CALIFORNIA SCIENCE CENTER

Operational Startup for the Phase II Project—

The Governor's Budget includes \$1.9 million General Fund and 4.3 positions to begin hiring key employees and purchasing critical equipment necessary to bring the Phase II project online. The Phase II project is a 146,000 square-foot facility that will nearly double the amount of exhibit space at the Science Center, and include the World of Ecology. Construction of the California Science Center Phase II Project will be completed in 2009.

SEISMIC SAFETY COMMISSION

Earthquake Research Grants—The Governor's Budget includes \$2 million (Special Deposit Fund) for the administration and issuance of grants for research related to earthquake risk reduction. The Seismic Safety Commission is finalizing a settlement that will provide one-time funding of \$6.6 million to implement a multi-year earthquake grant research program. The program will address risk reduction

needs identified by the state to reduce the risk of death, injury, and property damage during earthquakes.

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Improve Housing Case Processing — The Governor's Budget includes \$873,000 General Fund and 6.7 positions to improve case processing and service to individuals that file a housing discrimination complaint with the Department of Fair Employment and Housing.

FRANCHISE TAX BOARD

Tax Gap Enforcement — The Governor's Budget proposes \$19.6 million General Fund and 230 positions for various efforts to close the state's estimated \$6.5 billion tax gap. The tax gap is the difference between the amount of tax owed and the amount paid. Of the proposed resources, \$13.6 million and 180.5 positions are associated with six existing pilot programs proposed for permanent establishment. The existing programs concentrate on detecting non-filers and filers of fraudulent returns and on audit and collections activities. The FTB estimates these programs will generate \$64.7 million in revenues in 2007-08, and \$68.5 million in revenues in 2008-09.

The remaining \$6 million and 49.5 positions are for new initiatives to educate independent contractors about filing requirements, expand the corporate non-filer program, address out-of-state tax avoidance, and increase investigations of persons who fail to file a return, or who file fraudulent returns. The FTB estimates these initiatives will generate \$12.8 million

in revenues in 2007-08, and \$29.8 million in revenues in 2008-09.

Enhance Customer Service Staffing—The Governor’s Budget proposes to redirect \$1.3 million in savings to restore 27 customer service positions that were previously eliminated due to budgetary constraints. The proposed positions will allow FTB to reduce customer service wait times and to respond more effectively to taxpayer inquiries.

The savings proposed for re-direction are associated with Chapter 773, Statutes of 2006 (AB 2341), which eliminated the need for corporations to file tax clearance certificates before dissolving.

California Child Support Automation System—

The Governor’s Budget proposes to reduce CCSAS funding by \$99.2 million (\$33.7 million General Fund) in 2007-08. This adjustment reflects the transition of the project from development to implementation.

DEPARTMENT OF GENERAL SERVICES

Green Building Action Plan Resources—The Governor’s Budget includes \$3.4 million (Service Revolving Fund) and 4.7 positions to implement required energy savings programs and projects as specified in the Governor’s Executive Order S-20-04 and the accompanying Green Building Action Plan. This will enable the state to operate state-owned facilities rated “Silver” or higher as determined by the United States Green Building Council Leadership in Energy and Environmental Design.

State Capitol Maintenance and Repairs—The Governor’s Budget includes \$7.4 million General Fund and 4.3 positions to complete critical repairs to the State Capitol. A recently completed infrastructure report has identified the repair, system replacement, and maintenance activities necessary over the next 20 years to extend the useful life of the State Capitol.

The Governor’s Budget includes \$1.5 million General Fund to complete the Capitol Park Master Plan. The Capitol Park Master Plan will identify the historic landscape of the park, the current infrastructure conditions, security and maintenance needs, and future memorial locations and how to address all of the needs through the maintenance and reconstruction of the park over the next 50 years.

DEPARTMENT OF CONSUMER AFFAIRS

Establish the Professional Fiduciaries Bureau—

The Governor’s Budget includes \$1.1 million and 4.8 positions to create the Professional Fiduciaries Bureau pursuant to Chapter 491, Statutes of 2006 (SB 1550) effective January 1, 2007. The Bureau is responsible for licensing and regulating professional fiduciaries in California.

Bureau of Automotive Repair—The Governor’s Budget includes \$12.3 million and 8.6 positions to incorporate a visible smoke test into the Smog Check Program by January 1, 2008 and to increase the vehicle retirement payment to specified consumers.

Bureau of Private Postsecondary and Vocational Education—The Governor’s Budget includes \$11.4 million

(federal fund and various special funds) and 74.7 positions to continue funding for the Bureau of Private Postsecondary and Vocational Education, an increase of \$3.4 million special funds and 20.3 positions. Although the Bureau is scheduled to sunset effective July 1, 2007, the Administration will be sponsoring legislation to reform the Bureau's operations, and establish the Private Postsecondary Education and Student Protection Act.

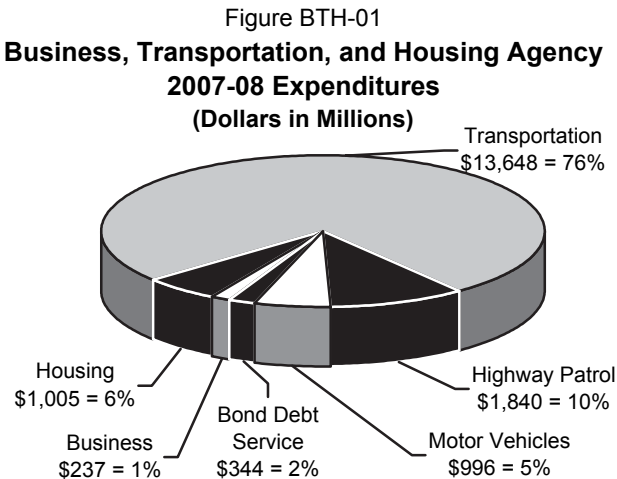
Enforcement—The Governor's Budget includes an increase of \$3 million for additional enforcement activities. This funding will allow the affected boards, bureaus, and Division of Investigations to ensure that qualified and licensed professionals are providing consumer services. Enforcement activities are funded through fees and citations paid by licensees. Funding increases are proposed for enforcement activities for the following DCA entities:

- Board of Accountancy (\$345,000)
- Dental Board (\$440,000)
- Board of Occupational Therapy (\$67,000)
- Board for Professional Engineers and Land Surveyors (\$96,000)
- Board of Vocational Nursing and Psychiatric Technicians (\$1,175,000)
- Bureau of Security and Investigative Services (\$199,000)
- Hearing Aid Dispensers Bureau (\$67,000)
- Division of Investigations (\$583,000)

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BUSINESS, TRANSPORTATION, AND HOUSING

The Governor's Budget proposes total expenditures of over \$18 billion in 2007-08 for roads, highways, mass transit and intercity rail, vehicle licensing and registration, highway law enforcement, housing, and regulation of businesses. Funding totals by program are shown in Figure BTH-01.



Change Table BTH-01 illustrates the major changes proposed to Business, Transportation and Housing Agency spending in the Governor's Budget.

Change Table BTH-01						
Business, Transportation, and Housing Agency - Changes by Broad Categories						
	2006-07			2007-08		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
2006 Budget Act	\$3,029,160	\$13,684,653	43,198.7	\$394,314	\$10,851,842	43,198.7
Workload Adjustments						
Fund Proposition 42 Transfer	--	--	--	1,475,396	--	--
Proposition 1A Debt Payment	--	--	--	83,000	--	--
Removal of One-Time Funds and Current Year Overfunding of State Transit Assistance	--	--	--	--	-283,683	--
Employee Compensation/Retirement	276	153,946	--	234	160,733	--
Court Orders/Lawsuits	593	-39	--	--	--	--
Expiring Programs or Positions	--	--	--	--	-492	--
One-Time Cost Reductions	--	--	--	-7,669	-38,417	--
Full-Year Cost of New Programs	--	--	--	--	94,447	174.4
Other Workload Adjustments	-4,239	-1,067,598	4.2	-18,569	2,305,832	-13.9
Totals, Workload Adjustments	-\$3,370	-\$913,691	4.2	\$1,532,392	\$2,238,420	160.5
Policy Adjustments						
Eliminate State Transit Assistance Share of Spillover Revenues	--	--	--	--	-155,374	--
Patrol Staffing Augmentation	--	--	--	--	17,507	88.9
Pavement Maintenance Augmentation	--	--	--	--	185,000	--
Proposition 1B Highway Transportation Expenditures	--	523,000	--	--	1,491,750	--
Proposition 1B Transit Expenditures	--	--	--	--	600,000	--
Proposition 1C Housing Bond	--	160,959	5.6	--	659,383	42.6
Tribal Securitization	--	-626,500	--	--	--	--
Other Policy Adjustments	--	--	3.3	-338,759	429,305	185.0
Totals, Policy Adjustments	\$0	\$57,459	8.9	-\$338,759	\$3,227,571	316.5
Infrastructure Adjustments	\$0	-\$42,251	--	\$0	\$163,780	--
Total Adjustments	-\$3,370	-\$898,483	13.1	\$1,193,633	\$5,629,771	477.0
Governor's Budget	\$3,025,790	\$12,786,170	43,211.8	\$1,587,947	\$16,481,613	43,675.7

Specifically, the BTH budget includes the following adjustments.

TRANSPORTATION RESOURCES

Total state and local transportation resources are estimated to be approximately \$23.8 billion in 2007-08, a major increase from \$21.2 billion in the current year due to Proposition 1B, the transportation bond.

PROPOSITION 1B

The Governor's Budget proposes to appropriate \$8.2 billion to begin implementation of the transportation element of the Proposition 1B bonds as part of the Strategic Growth Plan.

- \$2.8 billion is projected to be allocated, or committed, in 2007-08. The initial allocation and appropriation amounts are planned to be adjusted as programs are more fully developed and projects are approved for funding.
- \$523 million is proposed to be allocated through urgency legislation to enable construction to start as early as feasible for high priority projects that are ready-to-start.

Figure BTH-02 displays Proposition 1B bond funds included in the Governor's Budget.

Figure BTH-02
Planned Proposition 1B Implementation
(Dollars in Millions)

	2006-07*	2007-08	2008-09	2009-10	Proposed 2007-08 Appropriations
Corridor Mobility	\$100	\$317	\$712	\$1,090	\$2,119
Transit		\$600	\$350	\$350	\$1,300
State Transportation Improvement Program	\$262	\$340	\$287	\$408	\$1,035
Local Streets & Roads		\$600	\$300	\$150	\$1,050
Trade Infrastructure	\$15	\$170	\$255	\$255	\$680
State Highway Operation and Protection Program	\$141	\$403	\$102	\$13	\$518
State/Local Partnership		\$170	\$166	\$166	\$502
Grade Separations		\$55	\$60	\$59	\$174
Highway 99		\$28	\$44	\$99	\$171
School Bus Retrofit		\$97	\$96	\$7	\$97
Local Seismic	\$5	\$9	\$13	\$17	\$39
Total Appropriations	\$523	\$2,789	\$2,385	\$2,614	\$7,685

*2006-07 expenditures to be proposed in separate legislation

Funds for these projects will be disbursed as construction and other project activities occur, as in the case of other transportation projects, so the impact on the state debt limit of the bonds issued to fund these programs will be manageable. Trailer legislation is proposed to direct implementation of performance-based project selection and provide for accountability to the people. Programs authorized in Proposition 1B that are not included in the Governor’s Budget are currently being developed and funding will be proposed at a later date.

PROPOSITION 42

In November, 2006, the voters approved Proposition 1A, which further limits the conditions under which the Proposition 42 transfer can be suspended and requires all outstanding loans be repaid in annual increments by June 30, 2016. The Governor’s Budget proposes to fully fund the Proposition 42 transfer (\$1.5 billion) and the Proposition 1A loan repayment (\$83 million) for fiscal 2007-08.

PUBLIC TRANSPORTATION ACCOUNT

The Public Transportation Account receives funds from sales tax on diesel fuel, a portion of the sales tax increase provided by Proposition 111, Proposition 42, and the “spillover” sales tax on gasoline. Spillover revenues are available only when revenues from the gasoline sales tax at the 4.75-percent rate exceed revenues from all taxable sales at the 0.25-percent rate and this mechanism dates back to the establishment of sales tax on gasoline in 1972. In past years, spillover transfers occurred rarely; however, there has been spillover the last five fiscal years and, as a result of high gasoline prices, spillover

revenues are estimated to be \$617 million in 2007-08. Other sales tax revenues to be deposited in the Public Transportation Account in 2007-08 are estimated to be \$398 million, an increase of \$19 million over the current year.

In prior years the Legislature amended these statutes to reallocate the spillover revenues by statutory change to higher priority transportation uses. A similar reallocation is proposed in this budget to offset the following General Fund expenditures in the following transportation programs:

- Home-to-School Transportation (\$627 million).
- Transportation General Obligation Bond debt service (\$340 million).
- Developmental Services-Regional Center Transportation (\$144 million).

The Budget also proposes to permanently cease transferring revenues not controlled by Article XIX of the Constitution from the State Highway Account to the Public Transportation Account. This amount, estimated to be \$80 million in 2007-08, will instead be used to reduce the backlog in pavement maintenance that Caltrans faces in the State Highway Operations and the Protection Program and the Maintenance Program.

State Transit Assistance expenditures of \$184 million are proposed in 2007-08. This reflects a one-time reduction of \$102 million to correct for appropriations in 2006-07 that exceed the revenues available in statute for this program by that amount. Absent this correction, expenditures for transit assistance would exceed all previous years except 2006-07.

TRIBAL GAMING FUNDS

The 2006 Budget Act assumed repayment of a portion of outstanding transportation loans with \$849 million in bond proceeds derived from Indian gaming revenues to specified transportation programs. Several lawsuits have prevented the bonds from being sold, and the date that the tribal bond revenues were expected has subsequently changed numerous times. The Budget now assumes spending the tribal compact cash as it is received until the date that the bonds can be sold can be determined. Of these funds, \$100 million is annually deposited with the state, and consistent with current law, \$200 million from 2006-07 and 2007-08 will be deposited in the State Highway Account.

DEPARTMENT OF TRANSPORTATION

The Governor's Budget proposes \$12.8 billion, \$11.2 billion from non-General Fund sources, for the Department of Transportation (Caltrans). This reflects an increase of \$1.5 billion from the revised 2006-07 budget due primarily to the implementation of Proposition 1B.

CAPITAL OUTLAY

A 2007-08 authorization of \$5.8 billion is proposed for transportation capital outlay programs compared to \$4.6 billion in the current fiscal year. The 2007-08 total includes \$218 million from the General Fund, \$1.2 billion from the State Highway Account, \$1.6 billion in federal funds, and \$2.8 billion from other special funds.

STATE HIGHWAY OPERATION AND PROTECTION PROGRAM

The State Highway Operation and Protection Program consists of projects that reduce collisions and hazards to motorists, preserve and rehabilitate bridges and roadways, enhance and protect roadsides, and improve operation of the state highway system. \$1.8 billion is included in the Budget. The 2007-08 Budget reflects a \$100 million increase from tribal gaming funds and \$518 million from Proposition 1B funds.

LOCAL ASSISTANCE PROGRAMS

The Governor's Budget proposes \$3.2 billion in local assistance funding for transportation in 2007-08, including \$645 million in local assistance for Mass Transportation in Caltrans' budget. The total is comprised of \$801 million from the General Fund, \$158 million from the State Highway Account, \$1.8 billion in federal funds, and \$441 million from other special funds. An additional \$600 million is included from Proposition 1B bonds in the State Transit Assistance budget.

STATE OPERATIONS BUDGET

The Governor's Budget proposes \$3.8 billion in state operations funding for transportation in 2007-08.

MAINTENANCE

The Budget includes \$1.2 billion and 5,821 positions to maintain approximately 15,000 centerline miles of highway, over 230,000 right-of-way acres, and over 12,000 state highway bridges and to inspect over 12,000 local bridges. The Budget proposes an \$85 million increase.

RAIL OPERATIONS

The Budget includes \$123 million and 153 positions to manage and coordinate intercity rail passenger services and local transit projects that provide commuters with a range of transportation options, help to improve the state’s air quality and reduce highway congestion and fuel consumption. Caltrans manages two state-supported routes operated by Amtrak, and financially supports a third.

CALIFORNIA HIGHWAY PATROL

The Governor’s Budget proposes \$1.8 billion and 11,258 positions for support of the California Highway Patrol (CHP).

PATROL STAFFING EXPANSION

The Budget proposes to add 120 uniformed positions and 41 nonuniformed positions (\$17.5 million Motor Vehicle Account) to address workload growth associated with population growth. The full year cost of this request is \$21 million.

REPLACEMENT OF THE CHP RADIO SYSTEM

The Budget includes \$51.4 million to continue replacement of the Highway Patrol’s antiquated radio system. This project is estimated to cost \$504 million over five years. Upgraded equipment will substantially increase the CHP’s ability to communicate with other state and local emergency personnel.

DEPARTMENT OF MOTOR VEHICLES

The Governor's Budget proposes \$902.9 million, all from non-General Fund sources and 8,280 positions for support of the Department of Motor Vehicles.

INFORMATION TECHNOLOGY MODERNIZATION

The DMV's mainframe systems are antiquated, are written in archaic programming languages, and require replacement. The Budget includes \$24 million to continue the process of replacing these systems with commercially available software. This project will cost approximately \$242 million over seven years.

REAL ID ACT

The Act sets minimum standards for the creation and issuance of driver's license and identification cards that will be acceptable for official federal purposes, such as air travel and entering federal buildings. The Act has significant workload and cost implications for the DMV because it requires 24 million licensed drivers and identification card holders in California to return to DMV offices to establish identity and obtain compliant cards when many of these individuals otherwise would have been able to conduct these transactions through the mail or internet. Provisions of the Act require implementation by May 11, 2008; however, federal regulations concerning implementation are still under development. Once the Real ID regulations are promulgated, the DMV will be in a better position to accurately quantify resource needs for the budget year.

CREDIT CARD TRANSACTION FEES

As the DMV continues to promote use of the Internet to process transactions and provide better field office service, the number of transactions is expected to increase. Because credit card companies charge the state a per-transaction fee, the DMV will incur additional costs to process such transactions. The Budget includes \$11.4 million for this purpose.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Department of Housing and Community Development (HCD) administers housing finance, rehabilitation, and community development programs; oversees the state’s housing planning and code-setting processes; and regulates manufactured housing and mobile home parks. The Governor’s Budget proposes \$968.6 million (\$15.6 million General Fund and \$953 million other funds) and 597 positions for the department’s activities.

PROPOSITION 1C IMPLEMENTATION

In November 2006, the voters approved Proposition 1C, the Housing and Emergency Shelter Fund Act of 2006. HCD has begun the staff work to award funds from the proceeds of Proposition 1C to approved projects, expecting the first of these awards by the end of 2006-07. In 2007-08, HCD expects to make \$373 million in awards to the following program areas authorized by Proposition 1C:

- Affordable homeownership programs: \$88 million to help families become or remain homeowners (this

includes \$30 million for California Housing Finance Agency (CalHFA) programs, \$15 million for the California Downpayment Assistance Program, and \$15 million for the Residential Development Loan Program).

- Affordable rental housing construction programs: \$140 million to provide affordable rental housing, including for the State's lower income workforce, the elderly, disabled, and veterans.
- Housing for farmworkers: \$40 million to produce rental and affordable ownership opportunities for farmworker families.
- Homeless permanent housing construction: \$95 million to build permanent housing for the homeless, those transitioning out of homeless, and foster care youth.
- Homeless shelter housing construction: \$10 million to construct and expand shelters of last resort and transitional housing for the homeless.

Proposition 1C authorizes HCD to make the above expenditures without additional legislative authorization. Proposition 1C provides funding for two other programs: Building Equity and Growth in Neighborhoods (BEGIN), which provides grants to cities and counties to make deferred-payment second mortgage loans to qualified buyers of new homes, and the Transit-Oriented Development program to develop and construct housing projects close to transit stations. Funding for these two programs is required to be annually appropriated by the Legislature. The 2007-08 Budget proposes \$40 million and \$95 million for awards through BEGIN and Transit -Oriented Development, respectively.

The Budget includes \$145 million in awards for three programs that Proposition 1C requires be further specified through the adoption of additional subsequent legislation:

- Infill Incentives Grants (\$100 million): A competitive performance-based award program of grants for critical infrastructure projects that will (a) measurably increase the supply of infill housing produced as a direct result of the state’s investment, (b) encourage efficient land use and development patterns, and (c) ensure a reasonable geographic distribution of infrastructure resources throughout the state.
- Affordable Housing Innovation (\$15 million): Competitive grants or loans for projects that/for programs that demonstrate innovative, cost-saving ways to create or preserve affordable housing.
- Housing and Urban-Suburban and Rural Parks (\$30 million): This new program would create incentives to increase housing production by rewarding local governments with grant funds to create or improve well designed parks. This program would be administered by HCD in conjunction with the Department of Parks and Recreation.

The Administration will propose budget trailer bills to successfully implement these programs to incentivise the creation of more housing.

PROPOSITION 46

Proposition 46 is the Housing and Emergency Shelter Trust Fund Act passed by voters in November 2002. Until the recent

passage of Proposition 1C, Proposition 46 was the largest housing bond in the nation's history, providing \$2.1 billion for affordable homes for California's neediest citizens. As of December 31, 2006, the state had awarded approximately \$1.6 billion to create or provide incentives for more than 100,000 affordable rental or owner-occupied homes and shelter spaces. As a part of the Governor's Initiative on Homelessness, HCD has directed approximately \$30 million in Proposition 46 funds which, together with California Housing Finance Agency funds and Proposition 63, will provide homes with supportive services for seriously mentally ill homeless individuals and their families. HCD programs have assisted more than 10,427 homeless families and individuals, including veterans, by utilizing \$127.8 million in Proposition 46 funds to create homeless shelter and transitional housing facilities. Allocations are expected to decline in 2007-08, as HCD has been able to accelerate the award of funds and most categories of funding are fully allocated.

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RESOURCES

OVERVIEW

Resources Agency programs protect and restore California's natural resources for current and future generations. Included among the state's diverse attributes are stunning coastlines and lakes, spectacular forests, vast fish and wildlife habitats, rich farmlands, and extensive mineral resources. Agency programs also protect the public by suppressing wildfires, constructing river levees, and permitting safe power plants. These programs not only contribute to the state's unique quality of life, they are critical to sustaining a vibrant economy.

In November 2006, California's voters approved a landmark series of bonds that will revitalize the state's infrastructure and lay a proper foundation for future growth. Two of the bonds provide substantial investments in California's natural resources. Proposition 1E authorized \$4.1 billion for levee repair and other flood control system improvements. Proposition 84 will provide \$5.4 billion for water, flood control, natural resources, park, and conservation projects. Some of the most significant uses proposed in 2007-08 for these funds are discussed below, following the Change Table display.

Change Table RES-01 illustrates the major changes proposed to Resources spending in the Governor’s Budget.

Change Table RES-01						
Resources Agency - Changes by Broad Categories						
	2006-07			2007-08		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
2006 Budget Act	\$1,825,757	\$9,241,548	15,586.4	\$1,759,195	\$8,505,802	15,586.4
Workload Adjustments						
Employee Compensation/Retirement	35,591	36,285	225.0	38,915	32,434	225.0
Expiring Programs or Positions	--	--	--	-24,852	24,654	-3.8
One-Time Cost Reductions	--	--	--	-295,833	-312,972	--
Full-Year Cost of New Programs	--	--	--	--	1,375	--
Other Workload Adjustments	-41,083	1,360,747	170.1	192,552	947,283	119.2
Totals, Workload Adjustments	-\$5,492	\$1,397,032	395.1	-\$89,218	\$692,774	340.4
Policy Adjustments						
Other Policy Adjustments	--	544	20.6	-78,479	1,185,453	537.2
Totals, Policy Adjustments	\$0	\$544	20.6	-\$78,479	\$1,185,453	537.2
Infrastructure Adjustments	\$341,128	\$556,011	--	-\$119,406	\$1,312,067	21.8
Total Adjustments	\$335,636	\$1,953,587	415.7	-\$287,103	\$3,190,294	899.4
Governor's Budget	\$2,161,393	\$11,195,135	16,002.1	\$1,472,092	\$11,696,096	16,485.8

* Dollars in Thousands

The Governor’s Budget provides \$6.4 billion and more than 16,000 positions to protect and manage California’s natural resources in 2007-08. Of particular importance are the following adjustments:

- Flood Control**—To address the state’s urgent flood control needs, the Governor’s Budget includes \$629.9 million and 75 new positions from Proposition 1E, Proposition 84, and Proposition 13 bond funds and from funding contained in 2006 legislation, AB 142, to allow the continued repair of critical levee erosion sites, provide subventions to help local governments protect their communities from flooding, and continue development of the state’s strategic flood management capability. From the total amount budgeted, \$37 million in

Proposition 1E and 84 funds will be dedicated to five flood control capital projects: Mid-Valley Area Levee Reconstruction, South Sacramento County Streams, American River Watershed (Folsom Dam Raise), American River Watershed (Folsom Dam Raise, Bridge Element), and American River Flood Control—Natomas Features, and for feasibility studies on additional projects.

- **Proposition 84**—The Governor’s Budget proposes the expenditure of \$1.1 billion in Proposition 84 funds in 2007-08. Some important uses of those funds include drinking water and water quality projects, flood control, protection of rivers, lakes, and streams, forest and wildlife conservation, protection of beaches, bays, and coastal waters, promoting sustainable communities and climate change reduction, and parks and nature education facilities, including construction of new facilities and renovation and rehabilitation of existing facilities.
- **Ocean Protection**—Proposition 84 funds will allow the continuation of California’s landmark ocean protection programs, with \$28 million appropriated in 2007-08 from a \$90 million allocation. This will build upon \$20 million in one-time funding and \$9.5 million in ongoing annual funding already provided under this Administration to create marine protected areas, ensure sustainable fisheries, and regulate marine industries.
- **Sierra Nevada Conservancy**—The Conservancy was established by statute in 2004 to initiate, encourage, and support efforts to improve the environmental, economic, and social well-being of the Sierra Nevada Region. Proposition 84 allocates \$54 million to the Sierra

Nevada Conservancy for the protection of rivers, lakes, and streams in the Sierra Nevada region, along with their watersheds and associated land, water, and other natural resources. The Governor's Budget provides \$17.5 million of this funding in 2007-08.

- **Bioenergy**—The Governor's Budget proposes \$5.1 million, principally from Proposition 84 funds, to advance Governor Schwarzenegger's bioenergy initiative, which is designed to increase the use and availability of renewable energy, reduce reliance on fossil fuels, mitigate the risk of catastrophic wildfire, and ameliorate some of the state's critical waste disposal and environmental problems. The funds will provide grants through the California Department of Forestry to biomass energy generation facilities and enhance an existing biomass removal program operated by the California Tahoe Conservancy.
- **All-American Canal**—The Budget provides \$47.3 million General Fund for the lining of the All-American and Coachella canals. This funding is consistent with the Quantification Settlement Agreement (QSA), which is a comprehensive agreement among the federal government, the State, and various local water agencies to reduce California's use of Colorado River water. These canal lining projects are expected to save approximately 100,000 acre feet of Colorado River water.

ENVIRONMENTAL PROTECTION

OVERVIEW

The California Environmental Protection Agency (Cal/EPA) administers the state's environmental protection programs, which focus on restoring, preserving, and enhancing California's environmental quality and protecting public health.

The Governor's Budget includes \$1.7 billion (\$85.8 million General Fund and \$1.6 billion other funds) and 4,781.2 positions for Cal/EPA. Change Table ENV-01 illustrates the major changes proposed to Cal/EPA expenditures in the Budget.

Change Table ENV-01						
Environmental Protection Agency - Changes by Broad Categories						
	2006-07			2007-08		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
2006 Budget Act	\$87,993	\$1,319,701	4,552.8	\$84,030	\$1,318,581	4,552.8
Workload Adjustments						
AB 32 - Global Warming Solutions Act	--	--	--	--	26,481	107.1
Chaptered Legislation	--	--	--	169	2,236	8.3
SB 1379 - Biomonitoring Program	--	--	--	290	--	2.1
Employee Compensation/Retirement	4,201	26,832	--	3,864	25,869	--
One-Time Cost Reductions	--	--	--	-12,304	-132,041	--
Other Workload Adjustments	-694	315,418	-1.1	2,368	11,661	-11.6
Totals, Workload Adjustments	\$3,507	\$342,250	-1.1	-\$5,613	-\$65,794	105.9
Policy Adjustments						
Brownfields	--	--	--	--	3,121	25.1
Hydrogen Highway	--	--	--	--	6,033	7.7
Proposition 1B - Lower-Emission School Bus Program	--	--	--	--	96,500	2.9
Proposition 84	--	--	--	--	111,385	30.1
Other Policy Adjustments	--	67	0.5	7,410	164,155	56.7
Totals, Policy Adjustments	\$0	\$67	0.5	\$7,410	\$381,194	122.5
Infrastructure Adjustments	\$0	-\$1,000	--	\$0	\$1,000	--
Total Adjustments	\$3,507	\$341,317	-0.6	\$1,797	\$316,400	228.4
Governor's Budget	\$91,500	\$1,661,018	4,552.2	\$85,827	\$1,634,981	4,781.2

* Dollars in Thousands

SIGNIFICANT BUDGET ADJUSTMENTS

GLOBAL WARMING SOLUTIONS ACT

On September 27, 2006, the Governor signed the landmark California Global Warming Solutions Act (AB 32, Nunez and Pavley). The Act requires greenhouse gas emissions to be reduced to 1990 levels by 2020 and authorizes the development of a market-based compliance program.

The Governor's Budget proposes a total of \$35.8 million from various funds and 126.1 positions to implement the Act, including \$26.5 million and 107.1 positions for Cal/EPA boards and departments. This proposal will achieve emission reductions through a balanced approach of regulatory and market-based programs. Specific activities include:

- **Emissions Inventory Development and Mandatory Reporting** (\$3.5 million and 17.2 positions): The Air Board will be responsible for collecting greenhouse gas emissions data in California, maintaining an accurate emissions inventory and measuring the effectiveness of emission reduction strategies.
- **Emission Reduction Scoping Plan** (\$1.8 million and 10.8 positions): The Act requires the Air Board to develop a comprehensive scoping plan to attain 1990 emission levels by 2020. The Board will evaluate the cost-effectiveness and technological feasibility of regulatory and market-based emission reduction strategies, analyze economic impacts, and identify and make recommendations on specific emission reduction measures.
- **Alternative and Market-Based Compliance Measures** (\$12.0 million and 35.8 positions): This proposal will develop a market-based compliance program that will achieve emission reductions in a technologically feasible manner with the least impact on California consumers and businesses.
- **Regulatory Emission Reduction Measures** (\$7.1 million and 29.4 positions): This proposal will implement early action measures that have already been identified by the Climate Action Team as well as evaluate the costs and technological feasibility of other emission reduction measures.
- **Scientific and Economic Analysis** (\$7.4 million and 9 positions): To ensure that emission reductions are achieved in a cost-effective manner, departments

must conduct thorough scientific, technical, and economic analyses.

- **Program Oversight and Coordination** (\$4.0 million and 23.9 positions): Implementing the Act will involve collaboration with multiple state agencies and coordination with federal and local governments and international bodies. The Secretary for Environmental Protection will continue to lead the statewide effort to implement greenhouse gas emission reduction policies.

Funding for this proposal includes a \$15.9 million loan from the Motor Vehicle Account. The remaining funding will come from various special funds and Proposition 84.

LOW-EMISSION SCHOOL BUSES

The Governor's Budget proposes \$96.5 million Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund and 2.9 positions to replace pre-1987 school buses and retrofit old diesel school buses. This funding will replace 535 pre-1987 school buses manufactured prior to the implementation of diesel emission standards and retrofit approximately 1,500 school buses. School-age children are especially vulnerable to diesel emissions because their respiratory systems are still developing.

HYDROGEN HIGHWAYS

The Governor's Budget proposes \$6.0 million Motor Vehicle Account and 7.7 positions for the Air Resources Board to continue development of the Hydrogen Highway. This will provide matching funds for up to eight publicly accessible hydrogen fueling stations and will prioritize funding for stations that generate hydrogen from promising renewable technologies, such as biomass, solar, and wind energy.

Hydrogen technologies have the potential to significantly reduce air pollution from motor vehicles and reduce energy dependence on fossil fuels.

PROPOSITION 84—WATER QUALITY

The Governor's Budget proposes a total of \$1.1 billion for Proposition 84, "The Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006," including \$111.4 million and 30.1 positions for the State Water Resources Control Board for water quality programs, including:

- \$75.7 million and 8 positions to provide low interest loans or grants for wastewater treatment facilities and pollution control projects.
- \$6.2 million and 1.5 positions for the Agricultural Water Quality Grant Program.
- \$14.6 million and 3 positions for the Urban Storm Water Grant Program.
- \$8.8 million and 5.7 positions for the Clean Beaches Grant Program.
- \$6.1 million and 11.9 positions for basin and land use planning activities.

BROWNFIELDS

Brownfields are abandoned industrial properties that are contaminated, or thought to be contaminated, and are underutilized because of potential cleanup costs and liability concerns. The Governor's Budget proposes \$3.1 million Cleanup and Abatement Account and 25.1 positions for the Water Board to accelerate the cleanup

of approximately 750 additional brownfield sites. The Budget proposes \$219,000 special funds and 1.9 positions for the Department of Toxic Substances Control to implement recent legislation that provides incentives for brownfield cleanups.

BIOMONITORING

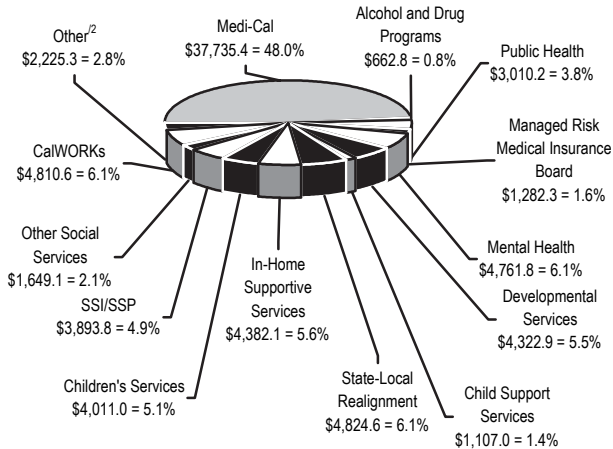
Biomonitoring is a scientific technique for assessing human exposure to chemicals based on sampling and analysis of an individual's tissues and fluids. The Governor's Budget proposes \$1.5 million General Fund and 4.9 positions to begin implementation of Chapter 599, Statutes of 2006, (SB 1379, Perata) which requires the Department of Public Health, in collaboration with Cal/EPA, to establish a Biomonitoring Program. Specifically, the Budget proposes \$167,000 and 1.2 positions for the Office of Environmental Health Hazard Assessment for public outreach and education activities and to support the Scientific Guidance Panel in making recommendations for the design and implementation of the Biomonitoring Program. The Budget proposes \$123,000 and 0.9 positions for the Department of Toxic Substances Control to assist in developing protocols to properly detect persistent organic chemicals in human tissue samples.

HEALTH AND HUMAN SERVICES

The Health and Human Services Agency (HHSA) oversees an array of departments and one board, which provide essential medical, dental, mental health, and social services to California's most vulnerable residents. HHSA programs provide access to short- and long-term services and supports that promote health, well-being, and independent living. As the state's population continues to grow and diversify, programs and services must be structured and delivered to promote improved outcomes as cost-effectively and efficiently as possible.

Figure HHS-01 displays expenditures for each major program area and Figure HHS-02 displays HHSA caseload information. The revised 2006-07 budget for all HHSA budgets totals \$76 billion in combined state and federal funds. This includes expenditures for approximately 32,200 state employees. The 2007-08 totals exceed the revised 2006-07 budget by \$2.7 billion, an increase of 3.5 percent.

Figure HHS-01
**Health and Human Services Proposed 2007-08
Funding¹
All Funds
(Dollars in Millions)**



¹ Totals \$78,679.1 million for support, local assistance, and capital outlay. This figure includes reimbursements of \$6,341.6 million and excludes enhanced federal funding and county funds that do not flow through the state budget.

² Includes the non-Medi-Cal portion of the Department of Health Care Services, Health and Human Services Agency, Department and Commission on Aging, Departments of Rehabilitation and Community Services and Development, Office of Statewide Health Planning and Development, State Independent Living Council Emergency Medical Services Authority, California Children and Families Commission, State Council and Area Boards on Developmental Disabilities, California Medical Assistance Commission, and General Obligation bonds.

Change Table HHS-01 displays changes in expenditures for HHSA in various broad categories. The major workload adjustments required by law for 2007-08 include the following:

- \$3.9 billion (\$1.6 billion General Fund) for enrollment, caseload, and population driven program increases.
- \$357.1 million (\$216.7 million General Fund) for statutorily required cost-of-living adjustments.

Figure HHS-02

Major Health and Human Services Program Caseloads

	2006-07 Revised	2007-08 Estimate	Change
California Children's Services (CCS) ^a (treatment of physical handicaps)	39,526	40,860	1,334
Medi-Cal Eligible CalWORKs	6,594,100	6,701,500	107,400
Average monthly individuals served	1,161,200	1,040,400	-120,800
Average monthly cases (families)	467,300	412,600	-54,700
Foster Care	72,300	69,100	-3,200
SSI/SSP (support for aged, blind, and disabled)	1,238,600	1,264,800	26,200
In-Home Supportive Services	375,000	395,100	20,100
Child Welfare Services ^b	159,000	154,900	-4,100
Non-Assistance Food Stamps	563,000	581,100	18,100
State Hospitals			
Mental health clients ^c	6,076	6,544	468
Developmentally disabled clients ^d	2,834	2,589	-245
Community Developmentally Disabled Services			
Regional Centers	212,155	220,600	8,445
Vocational Rehabilitation	79,515	79,515	0
Alcohol and Drug Programs ^e	188,869	199,553	10,684
Healthy Families Program ^f			
Children	841,700	915,600	73,900

^a Represents unduplicated quarterly caseload in the CCS Program. Does not include Medi-Cal Eligible CC

^b Represents Emergency Response, Family Maintenance, Family Reunification, and Permanent Placemen service areas on a monthly basis. Due to transfers between each service area, cases may be reflected more than one service area.

^c Represents the year-end population. Includes population at Vacaville and Salinas Valley Psychiatric Pro

^d Represents average in-center population. Reflects the impact of Agnews Developmental Center closure

^e Represents Drug Medi-Cal Clients.

^f Represents the year-end population.

Change Table HHS-01						
Health and Human Services Agency - Changes by Broad Categories						
	2006-07			2007-08		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
2006 Budget Act	\$29,304,197	\$45,134,548	32,037.8	\$29,296,791	\$44,945,710	32,037.8
Workload Adjustments						
Affordable Prescription Drugs	--	--	--	8,926	--	16.1
First 5	--	36,728	--	--	43,881	--
Realignment	--	-1,322	--	--	230,091	--
Enrollment/Caseload/Population	239,432	726,011	285.7	1,620,844	2,212,313	547.2
Employee Compensation/Retirement	110,593	67,152	--	124,245	64,987	--
Statutory Cost-of-Living Adjustments	--	--	--	216,738	140,332	--
Court Orders/Lawsuits	--	--	--	3,850	5,128	5.2
Expiring Programs or Positions	-54	-96	-1.9	-3,988	-17,124	-221.9
One-Time Cost Reductions	--	--	--	-241,013	-60,955	--
Full-Year Cost of New Programs	--	--	--	45,405	1,889	419.1
Other Workload Adjustments	156,003	206,531	72.1	-161,472	800,372	440.8
Totals, Workload Adjustments	\$505,974	\$1,035,004	355.9	\$1,613,535	\$3,420,914	1,206.5
Policy Adjustments						
Eliminate Integrated Services for Homeless Adults Program	--	--	--	-54,850	--	--
Health Coverage For Children (SB 437)	142	143	--	16,916	19,014	9.4
Increase Accountability and Improve CalWORKs Outcomes	--	--	--	-324,393	--	--
Increase Federal Funds for Intermediate Care Facilities	--	--	--	-44,000	--	--
Other Health and Human Services Savings Proposals	--	--	--	-146,720	27,763	--
Suspend CalWORKs COLA	--	--	--	-140,332	--	--
Use Average Manufacturers Price for Pharmacy Reimbursement	--	--	--	-44,000	-44,000	--
Use Proposition 98 for Child Care	--	--	--	-268,895	--	--
Use Public Transportation Account Funding for Regional Centers	--	--	--	-143,993	143,993	--
Other Policy Adjustments	14,790	102,401	16.2	100,477	262,623	127.0
Totals, Policy Adjustments	\$14,932	\$102,544	16.2	-\$1,049,790	\$409,393	136.4
Infrastructure Adjustments	-\$5,282	-\$110,253	--	\$14,494	\$28,039	--
Total Adjustments	\$515,624	\$1,027,295	372.1	\$578,239	\$3,858,346	1,342.9
Governor's Budget	\$29,819,821	\$46,161,843	32,409.9	\$29,875,030	\$48,804,056	33,380.7

* Dollars in Thousands

- \$230.1 million due to revenue growth in the State-Local Realignment program.
- \$8.9 million General Fund to provide millions of low-income Californians with access to discounted prescription drugs.

The policy adjustments included in the Governor's Budget for each department are discussed below.

HEALTH AND HUMAN SERVICES AGENCY

REAL CHOICE LONG-TERM CARE SYSTEMS TRANSFORMATION

The Governor's Budget provides \$900,000 in federal funds for implementation of the Real Choice Systems Transformation Grant, referred to as the California Community CHOICE program, to help build the state's long-term care system infrastructure and increase the capacity of the home- and community-based services system. The HHSA received a five-year, \$3 million Real Choice Systems Transformation Grant from the United States Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS). The California Community CHOICE program is consistent with the Administration's commitment to reforming the long-term care system by improving access to home- and community-based services, improving information technology systems and developing a funding system that promotes community living options.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

The Governor's Budget includes \$662.8 million for the DADP, a net decrease of \$11.5 million (\$8.4 million General Fund) from the revised 2006-07 budget and \$4.4 million (\$4.1 million General Fund) below the Budget Act of 2006.

Proposition 36 and the Substance Abuse Offender Treatment Program—Proposition 36, the Substance Abuse

and Crime Prevention Act of 2000 (SACPA), was approved by the voters on November 7, 2000. Under the SACPA, first or second time nonviolent adult drug offenders who use, possess, or transport illegal drugs for personal use receive drug treatment rather than prison time. The SACPA is intended to preserve jail and prison cells for serious and violent offenders, enhance public safety by reducing drug-related crime, and improve public health by reducing drug abuse through treatment. However, it has become clear that SACPA must be reformed to improve accountability and increase the number of persons who successfully complete treatment.

The Budget Act of 2006 reauthorized funding for Proposition 36 on the condition that program reforms sought by the Administration were included. Reforms were approved and included flash incarceration, improved judicial oversight of offenders diverted to substance abuse treatment in lieu of incarceration, and expanded options for offender management. However, these reforms have been suspended by judicial injunction, and resolution of this legal challenge remains unclear.

The Budget Act of 2006 also authorized \$25 million for the Substance Abuse Offender Treatment Program (OTP), which is intended to enhance treatment services for Proposition 36 offenders. The OTP expenditures include residential treatment, drug testing, and drug court model court costs intended to improve outcomes for program clients.

In light of the suspension of the reforms, the Governor's Budget reduces 2007-08 Proposition 36 funding by \$60 million and utilizes this funding to provide an increase of \$35 million to the OTP and savings of \$25 million on a one-time basis. As the

OTP contains some of the Proposition 36 reforms sought by the Administration, increasing funding for the OTP will allow the state to implement these and other reforms that will lead to improved program performance and client outcomes. If the reforms to Proposition 36 agreed to by the Legislature are not implemented, the Administration will revise its budget proposal in the May Revision to move all remaining Proposition 36 funding to the OTP.

DEPARTMENT OF HEALTH CARE SERVICES

Effective July 1, 2007, Chapter 241, Statutes of 2006 (SB 162) creates a new Department of Public Health (DPH) and a Department of Health Care Services (DHCS) from the existing Department of Health Services (DHS). This change will increase accountability, improve the effectiveness of public health programs and health care purchasing activities, enhance state leadership in public health, and increase organizational focus on the departments' respective core missions.

The creation of the two new departments is budget neutral.

MEDI-CAL

The Governor's Budget includes \$37.4 billion (\$14.6 billion General Fund), which reflects an increase of \$1.9 billion (\$979.8 million General Fund) above the revised 2006-07 budget and a net increase of \$2.3 billion (\$852 million General Fund) from the Budget Act of 2006. The General Fund increase primarily reflects increases in caseload and cost per eligible person. Average monthly caseload is forecast to be 6.7 million persons in 2007-08, an increase of 107,400 people, or 1.6 percent, compared to 2006-07.

SB 437—Enrolling Eligible Children in Health Coverage

Programs—The Governor's Budget includes \$35.9 million (\$16.9 million General Fund) and 9.4 positions for Chapter 328, Statutes of 2006 (SB 437) implementation activities and enrollment increases in various departments. For the DHCS, Medi-Cal will implement a pilot program for self-certification of income in two counties by July 1, 2007. This pilot is expected to increase Medi-Cal enrollment by 16,472 children in 2007-08.

California Discount Prescription Drug Program—

The Governor's Budget includes \$8.8 million and 15.2 positions to implement the California Discount Prescription Drug Program authorized in Chapter 619, Statutes of 2006 (AB 2911). For a modest \$10 annual fee this program will deliver prescription drugs at prices up to 40 to 60 percent below retail for generic and brand name drugs to individuals in families with incomes below 300 percent of the federal poverty or, upon federal approval, to eligible seniors whose drugs are not covered by Medicare.

California Rx Prescription Drug Web Site—The Governor's Budget includes \$96,000 and 0.9 position to implement the California Rx Prescription Drug web site authorized in Chapter 720, Statutes of 2006 (AB 2877). The web site, which should be implemented in the summer of 2007, will provide information to Californians about the options available for obtaining prescription drugs at affordable prices.

Cost Containment in Pharmaceuticals—To help contain the increase in prescription drug costs and align the program with federal requirements, the Governor's Budget proposes switching the basis used to establish the drug reimbursement component of pharmacy claims in the Medi-Cal program

from the Average Wholesale Price (AWP) to the Average Manufacturer Price (AMP). The AMP provides a lower cost basis through its relation to the actual costs of production, thus minimizing potential cost shifting to Medi-Cal from other drug purchasers and limiting the potential for price fixing. Use of the AMP is consistent with federal requirements and will result in General Fund savings of \$44 million.

Human Papillomavirus Vaccinations (HPV)—The Governor’s Budget includes \$11.3 million (\$5.6 million General Fund) to provide HPV to approximately 52,000 Medi-Cal-eligible women ages 19 through 26. The United States Food and Drug Administration recently approved this new vaccine, which has been shown to reduce the risk of getting cervical cancer by up to 70 percent.

Rates for Long-Term Care Facilities—The Governor’s Budget reflects savings of \$14.4 million General Fund by limiting the maximum rate increase for freestanding skilled nursing facilities to 4.5 percent, rather than the maximum 5.5 percent authorized by Chapter 875, Statutes of 2004 (AB 1629).

Nursing Facility A/B Waiver Cap Increase—The Nursing Facility A/B waiver is a federal home- and community-based services waiver that provides services and support to Medi-Cal beneficiaries to allow them to remain safely in their homes and avoid institutional placements. The Governor’s Budget provides \$9.3 million (\$4.6 million General Fund) to reflect cost increases that have occurred since the existing waiver was implemented, raising the Nursing Facility A waiver cap from \$24,551 to \$29,548, and the Nursing Facility B waiver cap from \$35,948 to \$48,180, effective July 1, 2007.

Adult Day Health Care Reform—The Governor’s Budget includes \$4 million (\$1.9 million General Fund) and 47.0 positions to phase in program reforms and develop a new rate methodology to increase California’s ability to retain federal funding and help ensure services remain available for qualified beneficiaries, as required by Chapter 691, Statutes of 2006 (SB 1755).

DEPARTMENT OF PUBLIC HEALTH

Pursuant to Chapter 241, Statutes of 2006 (SB 162), effective July 1, 2007, the new Department of Public Health (DPH) is charged with protecting and promoting the health status of Californians through programs and policies that use population-wide interventions. The department’s programs include Public Health Emergency Preparedness, Public and Environmental Health, and Licensing and Certification. The Governor’s Budget includes \$3.0 billion for the newly established DPH.

Licensing and Certification—The Governor’s Budget includes \$84.2 million (\$6.3 million General Fund) for Licensing and Certification, which reflects a net increase of \$19.3 million (a decrease of \$10.1 million General Fund) above the Budget Act of 2006. Some of the major changes include:

- Accelerated implementation of the statutory requirement for the program to become fee-supported, resulting in General Fund savings of \$7.2 million in 2007-08 and \$3.6 million in 2008-09.
- \$7.2 million L and C Program Fund and 42.7 positions to implement Chapter 647, Statutes of 2006 (SB 1301)

related to the reporting of and follow up on adverse events in hospitals.

- \$2.5 million L and C Program Fund and 15.2 positions to conduct periodic licensing surveys of long-term care facilities, pursuant to Chapter 895, Statutes of 2006 (SB 1312).
- \$0.2 million and 1.4 positions in DPH and \$0.5 million (\$0.3 million General Fund) and 4.3 positions in DHCS to ensure hospitals apply fair pricing to uninsured and underinsured patients, pursuant to Chapter 755, Statutes of 2006 (AB 774).

Genetic Disease—The Governor’s Budget includes \$118.7 million from the Genetic Disease Testing Fund, a net increase of \$21.0 million above the Budget Act of 2006. The Governor’s Budget includes \$4.2 million from the proposed Birth Defects Monitoring Fund, \$16.1 million from the Genetic Disease Testing Fund and 5.7 positions to implement Chapter 484, Statutes of 2006 (SB 1555), which expands research efforts and prenatal screenings for birth defects.

Foodborne Illness—The Governor’s Budget includes \$2.1 million General Fund and 8.5 positions to enhance the state’s capabilities to respond to foodborne illnesses and outbreaks such as E. coli. Given the health and economic impact of these incidents, the Administration believes it is important to secure additional resources to ensure DPH can quickly respond to and investigate future outbreaks.

HIV Reporting—The Governor’s Budget includes \$2.0 million General Fund to provide additional local assistance funding to

increase staff for HIV reporting activities and help California retain critical federal funding. This funding will accelerate the conversion process necessitated by new data collection and reporting requirements that support the state's continued receipt of \$50 million in federal grants.

Infection Control—The Governor's Budget includes \$2.0 million (\$1.6 million General Fund, \$0.4 million Licensing and Certification Program Fund) and 13.3 positions to implement the Hospital Infectious Disease Control Program, pursuant to Chapter 526, Statutes of 2006 (SB 739). This proposal will implement measures designed to prevent various hospital-associated infections.

Biomonitoring—The Governor's Budget provides \$1.2 million General Fund and 2.8 positions for the DPH to begin implementation of an environmental contaminant biomonitoring program pursuant to Chapter 599, Statutes of 2006 (SB 1379). This funding will support a contract to develop a sampling design and establish parameters for this program. This proposal is a collaborative effort that also includes \$0.2 million General Fund for the Office of Environmental Health Hazard Assessment and \$0.1 million General Fund for the Department of Toxic Substances Control.

MANAGED RISK MEDICAL INSURANCE BOARD

The Governor's Budget includes \$1.3 billion (\$394.7 million General Fund) for MRMIB, an increase of \$82.5 million (\$32.7 million General Fund) above the revised 2006-07 budget and \$87.8 million (\$24.4 million) above the Budget Act of 2006. This increase is due primarily to enrollment growth in

the HFP, which is projected to grow from 841,700 by year-end 2006-07 to 915,600 in 2007-08 for a total increase of 73,900 children, or 8.8 percent.

SB 437—Enrolling Eligible Children in Health Coverage Programs—The Governor’s Budget includes \$35.9 million (\$16.9 million General Fund) and 9.4 positions for Chapter 328, Statutes of 2006 (SB 437) implementation activities and enrollment increases in various departments. For the MRMIB, self-certification of income at the annual eligibility review will be implemented by January 1, 2008, and is expected to increase HFP enrollment by 13,237 children in the first six months.

HEALTHY FAMILIES PROGRAM (HFP)

The HFP is a subsidized health coverage program for children in families with low- to moderate-income who are ineligible for no-cost Medi-Cal services. This program provides low-cost medical, dental and vision coverage to eligible children from birth to age 19. HFP expenditures are projected to grow from revised expenditures of \$1.0 billion (\$360 million General Fund) in 2006-07 to \$1.1 billion (\$392 million General Fund) in 2007-08. This increase is primarily the result of enrollment that is projected to grow from 841,700 by year-end 2006-07 to 915,600 in 2007-08, for a total increase of 73,900 children, or 8.8 percent.

ACCESS FOR INFANTS AND MOTHERS

The AIM program provides low-cost, comprehensive health coverage to uninsured pregnant women with family incomes between 200 and 300 percent of the federal poverty level.

This coverage extends from pregnancy to 60 days postpartum. Children born to AIM mothers automatically are enrolled in the HFP. Expenditures for this program are projected to increase from \$127.5 million (\$60.4 million Perinatal Insurance Fund) in 2006-07 to \$138.7 million (\$60.7 million Perinatal Insurance Fund) in 2007-08, for a total increase of \$11.2 million, or 8.8 percent. This change in total expenditures is primarily due to increased enrollment of women, from 12,097 in 2006-07 to 13,912 in 2007-08.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Governor's Budget includes \$4.3 billion (\$2.6 billion General Fund) for the Department of Developmental Services (DDS), an increase of \$160.3 million (\$38.3 million General Fund) above the revised 2006-07 budget. Total caseload is expected to reach 223,189 consumers in 2007-08, compared to 214,989 in 2006-07.

DEVELOPMENTAL CENTERS

The Governor's Budget provides \$712.3 million (\$393.6 million General Fund) for the developmental centers, a net decrease of \$18.4 million (\$9.9 million General Fund) from the revised 2006-07 budget, primarily due to a reduction in the developmental center population as consumers transition into the community. The Governor's Budget supports a population of 2,589, a decrease of 245 consumers from 2006-07.

Agnews Developmental Center Closure—The Governor's Budget continues to provide funding to achieve closure of Agnews Developmental Center in June 2008. For 2007-08,

the Governor's Budget includes a decrease of \$10.4 million (\$5.6 million General Fund) due to the anticipated movement of 145 consumers from Agnews into the community and costs associated with moving an estimated 10 consumers to other developmental centers. The regional centers' budget is projected to increase by \$50.7 million (\$37.9 million General Fund) for the costs of providing services to these consumers in the community.

Salary Increases for Medical Services Personnel—

The Governor's Budget contains an increase of \$12.6 million (\$12.4 million General Fund) to bring salaries for classifications providing medical services to within 18 percent of the Plata court-ordered salaries for the same classifications at the California Department of Corrections and Rehabilitation (CDCR). This will allow hiring and retention of medical staff at developmental centers.

REGIONAL CENTERS

The Governor's Budget includes \$3.6 billion (\$2.2 billion General Fund) for regional centers, a net increase of \$251.3 million (\$46.5 million General Fund) above the revised 2006-07 budget, primarily due to increases in the costs of community care facilities, day programs, support services, miscellaneous services, and the minimum wage. The Governor's Budget supports a population of 220,600, an increase of 8,445 consumers above 2006-07.

Non-Medical Transportation and Day Programs—

The DHCS is pursuing a revision to the Medi-Cal state plan to include coverage and payment for day program and non-medical transportation services for regional center

consumers with developmental disabilities residing in intermediate care facilities. These services currently are provided and paid for by the regional centers solely through state General Fund dollars. The Governor's Budget includes a reduction of \$44 million General Fund in the DDS budget as a result of this change.

One-Time Use of Public Transportation Account Funding for Regional Center Transportation Services—The regional centers contract with vendors to provide a number of services to consumers, including transportation services. Transportation services include services provided by public transit, specialized transportation companies and family members or friends. These services allow persons with developmental disabilities to participate in programs and other activities identified in their Individual Program Plans. The Governor's Budget includes \$144 million in Public Transportation Account funding on a one-time basis in 2007-08 to replace the General Fund share of regional center transportation costs.

Minimum Wage Increase—On January 1, 2007, California's minimum wage increased by \$0.75 to \$7.50 per hour. This increase affects entry-level direct care staff who provide services in community care facilities, day and work activity programs and respite care. The Governor's Budget reflects costs of \$26.4 million (\$18.3 million General Fund) in 2006-07 and \$53.3 million (\$37.2 million General Fund) in 2007-08 to fund this increase. On January 1, 2008, California's minimum wage will increase an additional \$0.50, to \$8.00 per hour. The Governor's Budget also includes \$18.1 million (\$12.6 million General Fund) to fund this increase.

DEPARTMENT OF MENTAL HEALTH

The Governor's Budget includes \$4.8 billion (\$1.9 billion General Fund) for the DMH, a net increase of \$652.8 million (a decrease of \$217.2 million General Fund) from the revised 2006-07 budget and an increase of \$1.1 billion (\$201.1 million General Fund) from the Budget Act of 2006. This net change primarily reflects continued growth in the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program, the impact of Proposition 83 (also known as Jessica's Law), elimination of the Integrated Services for Homeless Adults with Serious Mental Illness program, and the removal of one-time costs for prior-year AB 3632 mandate claims.

STATE HOSPITALS

The Governor's Budget includes \$1.2 billion (\$1.1 billion General Fund) and 10,898.8 positions for 2007-08, an increase of \$114.8 million (\$88.3 million General Fund) and 1,020.3 positions from the revised 2006-07 budget, due primarily to a projected increase of 440 SVP commitments and resources necessary to comply with the federal Civil Rights for Institutionalized Persons Act and Jessica's Law. The patient population is projected to reach a total of 6,544 in 2007-08.

Coleman Court Order—In June 2006, the director of the DMH was named as a co-defendant in *Coleman v. Schwarzenegger*, the federal lawsuit claiming that the CDCR is not providing adequate mental health services to inmates. The Coleman decision requires that mental health classifications in CDCR receive salary increases beginning in the current year. The Governor's Budget includes \$3.9 million

General Fund in 2006-07 and \$5.5 million General Fund in 2007-08 to increase the salaries of the same classifications of staff working in DMH psychiatric programs operating within Salinas Valley State Prison and the California Medical Facility at Vacaville.

Salary Increases for Medical Services Personnel—

The Governor's Budget contains an increase of \$7.1 million (\$6.9 million General Fund) to bring salaries for classifications providing medical services at the DMH to within 18 percent of the Plata court-ordered salaries for CDCR. This will allow hiring and retention of medical staff at state hospitals.

COMMUNITY MENTAL HEALTH SERVICES

The Governor's Budget includes \$3.4 billion (\$762.9 million General Fund), an increase of \$927.6 million (\$47.4 million General Fund) compared to the revised 2006-07 budget, for community mental health services to prevent commitment to a state hospital or incarceration.

Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program—The EPSDT Program is an entitlement program for children and adults under age 21. The program provides services to approximately 185,571 Medi-Cal-eligible children and young adults to ameliorate a diagnosed mental illness.

In 2006-07, there is an increase in the General Fund appropriation of \$302.7 million that includes a deficiency request related to EPSDT of \$243.0 million for unpaid county claims from prior years. The federal reimbursement authority is increased by \$275.7 million to reflect an adjustment to the funding level for EPSDT services and to pay prior years claims.

In 2007-08, there is an increase of \$92.7 million General Fund and \$95.1 million federal reimbursement authority above the Budget Act of 2006 attributable to increases in the cost and volume of claims, including the effect of the Mental Health Services Act (Proposition 63) on EPSDT services provided.

The Department of Finance's Office of Statewide Evaluations and Audits (OSAE) is reviewing EPSDT estimating methodology, and the Administration will have a proposal to improve this methodology in the spring. The OSAE also is assisting the DMH in an internal control review of DMH's system and processes.

Proposition 83—Jessica's Law was approved by voters in the November 2006 General Election and establishes new laws to control sex offenders which significantly increases the number of case referrals to the DMH. The Governor's Budget includes \$28.9 million General Fund in 2006-07 and \$53.9 million General Fund in 2007-08 to provide for an increase in Sexually Violent Predators (SVPs) at state hospitals, manage increased SVP evaluations and court testimony, and fund increased administrative costs at Department headquarters and Coalinga State Hospital.

Integrated Services for Homeless Adults with Serious Mental Illness—The Governor's Budget proposes elimination of the Integrated Services for Homeless Adults with Serious Mental Illness program. This program currently provides funding to local mental health agencies to act as the single point of responsibility for the comprehensive service needs of individuals who are homeless or at risk of homelessness or incarceration and have a serious mental illness. Similar services are available to individuals under Proposition 63.

Eliminating General Fund for these programs results in annual ongoing local assistance savings of \$54.9 million. Significant increases in the EPSDT program in both current and budget year allow for the elimination of this program while still meeting the Proposition 63 maintenance-of-effort requirements.

Early Mental Health Initiative (EMHI)—The Governor’s Budget includes a \$5 million increase in Proposition 98 General Fund to augment the EMHI program, which provides grants to local education agencies for supportive, non-clinical mental health intervention and prevention services to children (grades K-3) who have mild or moderate school adjustment difficulties. This augmentation will increase total program funding to \$15 million in 2007-08.

DEPARTMENT OF CHILD SUPPORT SERVICES

The Governor’s Budget includes \$1.1 billion (\$319.8 million General Fund), and 518.8 positions for the department. This funding level represents a decrease of \$444.8 million (\$265.1 million General Fund) below the revised 2006-07 budget and \$372.4 million (\$250.2 million General Fund) below the Budget Act of 2006. This decrease is primarily associated with the abeyance of federal automation penalties beginning in 2007-08 and a reduction of one-time payments and system automation costs incurred in 2006-07.

Child Support Automation—In 1999, the Franchise Tax Board was designated to procure, develop, implement, maintain, and operate a new statewide automated child support system, the California Child Support Automation System (CCSAS). The state is responsible for developing and

implementing the CCSAS and transitioning all counties onto this new system.

The Governor's Budget reflects California's request for federal certification of the statewide child support automated system and, for the first time since 1998, does not include a General Fund appropriation to pay federal automation penalties. During the certification process, the federal government will hold future penalties in abeyance pending final review of the child support automation system. In 2006-07, the state budgeted \$220 million General Fund in penalties for failure to have a single statewide child support automation system. Once the federal government certifies the system, it will reimburse California \$198 million, or 90 percent of the state's final penalty payment. Given the current project schedule, the system should be certified in 2008-09, and the Governor's Budget assumes accrual of the penalty reimbursement to 2007-08.

Child Support Local Administration—The Governor's Budget proposes \$194.9 million General Fund to fund local agency administrative costs, which is approximately the same level of funding for local program expenditures provided in 2006-07.

Effective October 1, 2007, the federal Deficit Reduction Act of 2005 will eliminate California's ability to claim federal matching funds for earned federal incentive payments based upon program performance in a number of areas, such as paternity establishment. The Governor's Budget therefore includes increased funding of \$23 million General Fund to maintain the current funding level for local child support agencies.

The Governor’s Budget also continues to provide \$20 million in federal funds to be matched by \$10 million in voluntary county funding for the support of local child support agency staff and program services.

DEPARTMENT OF SOCIAL SERVICES

The Governor’s Budget includes \$18.7 billion (\$8.9 billion General Fund) and 4,236 positions for the Department of Social Services (DSS). This represents a decrease of \$329.9 million General Fund from the revised 2006-07 budget and \$214.3 million General Fund from the Budget Act of 2006.

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS

The Governor’s budget includes total CalWORKs expenditures of \$7 billion (state, local, and federal funds) for 2007-08. Proposed changes to CalWORKs are estimated to reduce the 2007-08 caseload projection to 412,600 families, an 11.7-percent decrease from the 2006-07 estimate.

Impetus for Change

Because many recipients are not working sufficient hours to meet the federal work participation requirements, California’s work participation rate has ranged from a high of over 40 percent in 1999 to less than 24 percent currently. In the past, California met the federal requirements due to significant caseload reduction credits allowed under the original federal welfare reform. The federal Deficit Reduction Act (DRA) reauthorized the Temporary Assistance for Needy Families (TANF) program and made changes that will require California

to increase work participation rates of individuals receiving assistance funded with TANF and matching Maintenance of Effort (MOE) resources or face substantial fiscal penalties.

Even with the \$230 million investment made in the Budget Act of 2006 taken into consideration, full implementation of current policies is not expected to increase work participation rates enough to meet the federal requirement for at least 50 percent work participation among all families. The Governor's Budget proposes to implement changes that place a greater emphasis on work participation and personal responsibility, improve California's ability to meet federal requirements, and increase program efficiencies. These changes are necessary not only to meet the federal work participation rate requirements but also to refocus the program on engaging individuals in work to become self-sufficient.

Increase Accountability and Improve CalWORKs Outcomes

California's policy to date has been to limit total CalWORKs spending to only the TANF Block Grant (including carryover balances) and the required MOE amount. However, the Governor's Budget identifies MOE expenditures in excess of the required level to achieve a greater caseload reduction credit, as allowable by the federal government. The DRA expanded MOE-eligible spending to include certain expenditures for non-assistance benefits and services. This allows additional expenditures of \$203 million to be counted towards the CalWORKs MOE within the State Department of Education child care and after school programs, increasing California's caseload reduction credit by an estimated 5 percent.

Major programmatic changes that place greater emphasis on work participation and reduce reliance upon public assistance are necessary to significantly improve the ability of the state and counties to meet federal work requirements in the TANF program. Failure to do so will result in substantial federal penalties to the state and counties. California must realign its welfare policies while maintaining CalWORKs' core goals to minimize the risk of penalties and improve program outcomes. Key components of this effort include:

- **Implement Full Family Sanctions**—This proposal strengthens work requirements and recipient accountability by imposing full sanctions for families when the adult continues to not comply with program requirements beyond 90 days. A full family sanction policy will reduce prolonged noncompliance while providing a reasonable timeframe to achieve compliance during which benefits are still available. This component will increase California's work participation rate by 9 percent.
- **Modify the Safety Net Program**—The current safety net program minimizes the incentive for families to become self-sufficient. This proposal would reward working families by continuing safety net benefits for families beyond their 60-month time limit only if they meet federal work participation requirements. This component will increase the state's work participation rate by 4 percent.
- **Consistent Child-Only Benefits**—The Administration proposes to provide cash aid for families receiving child-only benefits that are consistent with other CalWORKs families. As such, aid to families receiving

child-only benefits will be limited to 60 months.

These families include parents or caretakers who are undocumented non-citizens, drug felons, or fleeing felons.

- **Semi-Annual Reporting** — The Administration proposes to modify the process for redetermining benefit levels for CalWORKs and Food Stamp recipients and to change the reporting frequency for recipients from quarterly to semi-annually. This change will simplify the process for both county staff and recipients, will increase the state's ability to track recipients' work participation, and will align California's reporting frequency with that of other states. The goal is to have this component ready for implementation in 2008-09.

To provide recipients sufficient time to comply with work requirements, these reform measures will become effective on November 1, 2007, and are estimated to provide net savings of \$324.4 million in 2007-08 and \$426 million annually thereafter. With these reforms, the Governor's Budget proposes to maintain the \$230 million included in the Budget Act of 2006 to support CalWORKs program improvements, including \$90 million for counties to implement program improvements that lead to better outcomes and increased work participation rates for CalWORKs recipients and \$140 million to support county administration. The Governor's Budget makes available \$40 million in Pay for Performance incentive funds for those counties that achieve improved program outcomes during 2006-07. The combination of CalWORKs reform and county efforts will position counties to increase work participation rates, meet federal requirements, avoid penalties, and successfully move families from welfare to work.

Other CalWORKs changes include:

- Utilizing available Proposition 98 resources in lieu of federal TANF funds to fully fund Stage 2 child care maintains child care services and provides \$268.9 million in ongoing General Fund savings.
- Suspending the July 1, 2007, CalWORKs maximum aid payment COLA will help to alleviate the state's structural deficit without reducing benefits to CalWORKs families. This proposal will result in savings of \$140.3 million in 2007-08 and annually thereafter.
- Savings of \$16 million are achieved in 2007-08 through a one-time reduction in the counties' single allocation funding for employment services, child care, and administration. Counties can backfill the reduction with fraud recovery incentive funds previously earned and allocated to counties, but not yet spent.
- Additional Employment Training Fund revenues are available in 2007-08 to support CalWORKs employment services. This will achieve one-time General Fund savings of \$15 million with no impact to recipient families and still allow for an increase in the Employment Training Panel's appropriation compared to the Budget Act of 2006.
- A portion of the TANF savings generated by the above proposals will be used to offset 2007-08 General Fund costs in the Child Welfare Services (CWS) emergency assistance program by \$36.4 million. The availability of \$20 million in TANF carryover funds from 2006-07 will increase these General Fund savings to \$56.4 million.

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PAYMENT PROGRAM

The Governor's Budget proposes \$3.9 billion General Fund for the Supplemental Security Income / State Supplementary Payment (SSI/SSP) program in 2007-08. This represents a 9.9-percent increase from the revised 2006-07 budget. The caseload in this program is estimated to be 1.3 million recipients in 2007-08, a 2.1-percent increase over the 2006-07 projected level.

The Governor's Budget includes \$216.7 million General Fund in 2007-08 to provide the January 2008 state SSI/SSP COLA. SSI/SSP recipients will receive grant increases due to a projected 1.2 percent federal COLA and an estimated 4.2 percent state COLA. Beginning in January 2008, monthly grant payment levels are estimated to increase from \$856 to \$892 for aged or disabled individuals and from \$1,502 to \$1,565 for aged or disabled couples. With these increases, California's SSI/SSP payment levels for individuals and couples are expected to maintain rankings of second and first in the nation, respectively.

IN-HOME SUPPORTIVE SERVICES

The Governor's Budget proposes \$1.5 billion General Fund for the IHSS program. The average monthly caseload in this program is estimated to be 395,100 recipients in 2007-08, a 5.4-percent increase over the 2006-07 projected level.

Given the state's fiscal constraints, it is necessary to limit the state's share of cost in this program. By maintaining state participation at the combined wage and benefit levels in effect as of January 10, 2007, significant reductions to services can

be avoided. Future increases in wages and benefits that are collectively bargained at the local level will be financed by the counties and federal government. Absent this proposal, given the projected growth in statewide revenues, state participation in IHSS wages and benefits would increase from \$11.10 per hour to \$12.10 per hour in 2007-08. Freezing state participation will result in General Fund savings of \$14.1 million by avoiding this increase and lead to significant future cost savings.

CHILD WELFARE SERVICES

The child welfare system in California provides a continuum of services through programs, including Child Welfare Services (CWS), Child Abuse Prevention, Foster Care, Adoption Assistance, and adoptions to children who are either at risk of or have suffered abuse and neglect. The Governor's Budget includes \$4 billion (\$1.6 billion General Fund) to provide assistance payments and services to children and families under these programs. This is a \$94.4 million, or 2.4-percent, increase from the revised 2006-07 budget.

Working together in recent years, the Administration and Legislature have taken action to improve the safety, permanency, and well-being of children. The Governor's Budget maintains the \$255 million (\$160 million General Fund) investment provided to improve the safety, permanency, and well-being of youth in foster care and continues efforts to reform the CWS program.

The state has made significant improvements by successfully complying with 10 of 14 federal outcome measures in this area it had previously failed. The Governor's Budget includes an additional \$5.4 million (\$2.9 million General Fund) in 2007-08

for programmatic investments designed to ensure the safety of children and improve outcomes.

COMMUNITY CARE LICENSING

The Governor's Budget includes \$119.9 million (\$38.2 million General Fund) for licensing activities that promote the health, safety, and quality of life of each person in community care facilities. This is a \$7.1 million (\$5.9 million General Fund), or 6.3 percent, increase from the revised 2006-07 budget.

The Governor's Budget includes \$6.6 million (\$6.1 million General Fund) for the following investments:

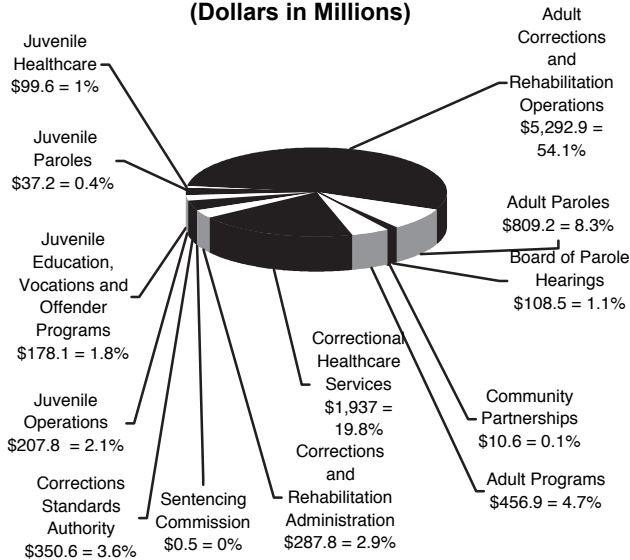
- \$4.3 million (\$4.1 million General Fund) and 58.5 positions to increase the number of random sample licensing visits from 20 percent to 30 percent annually to comply with statutory requirements. The Administration also proposes to modify the requirement for increasing the random sample based upon growth in citations to account for increases in visits.
- \$0.6 million (\$0.5 million General Fund) and 6.5 positions for follow-up visits when a Temporary Suspension Order, Revocation, or Exclusion Order has been served to ensure that the facility has ceased operation or that the excluded individuals are no longer at the facility. Proper follow-up will further enhance client protections.
- \$1.7 million (\$1.5 million General Fund) to implement a Licensing Reform Automation Project to improve limitations and weaknesses of information technology systems supporting the licensing program. This augmentation will provide automated tools to enable

licensing staff to conduct more follow-up visits and better focus on the health and safety of clients in care.

CORRECTIONS AND REHABILITATION

Excluding infrastructure expenditures, the 2007-08 Governor's Budget proposes total funding of approximately \$10 billion for California Department of Corrections and Rehabilitation (CDCR) programs. The amount proposed is a 2.6 percent increase over the revised 2006-07 Budget. Funding totals by program are shown in Figure DCR-01:

Figure DCR-01
Proposed CDCR Expenditures for 2007-08
All Funds by Program
(Dollars in Millions)



Change Table DCR-01 illustrates the major changes proposed to CDCR spending in the Governor’s Budget.

Specifically, the CDCR budget includes the following adjustments:

MAJOR POPULATION ADJUSTMENTS

Adult Inmate and Parolee Population—Under existing law, the average daily inmate population is projected to increase from 173,401 in 2006-07 to 177,577 in 2007-08, an increase of 4,176 inmates, or 2.4 percent. The 2006-07 Budget assumed an average daily inmate population of 175,627.

Change Table DCR-01

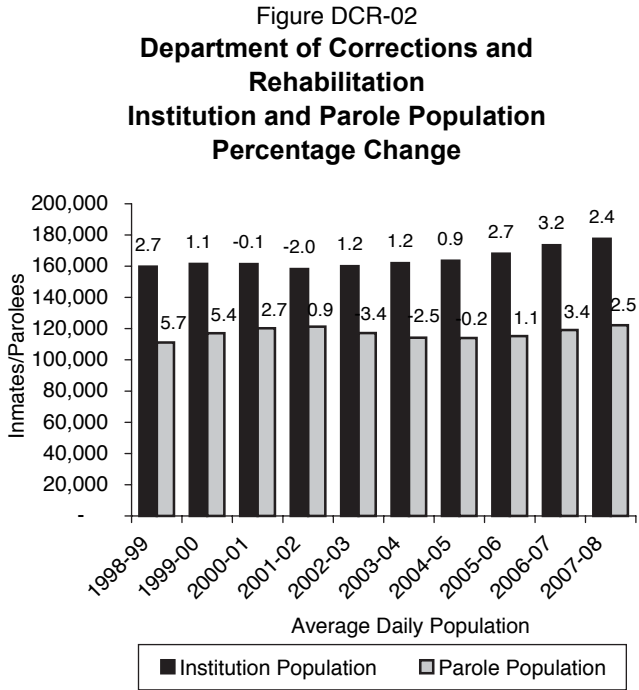
Corrections and Rehabilitation Agency - Changes by Broad Categories

	2006-07			2007-08		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
2006 Budget Act	\$8,751,139	\$523,414	62,714.7	\$8,569,955	\$333,024	62,714.7
Workload Adjustments						
Facility Maintenance and Repair	--	--	--	46,000	--	--
Sex Offender Management Plan	30,400	--	86.3	77,286	--	294.8
Statewide Equipment Replacement	--	--	--	23,025	--	--
Enrollment/Caseload/Population	-2,670	-745	-170.1	62,061	-106	257.6
Employee Compensation/Retirement	345,658	2,833	--	360,073	2,512	--
Court Orders/Lawsuits	129,972	--	493.5	278,873	--	882.9
Expiring Programs or Positions	--	--	--	-4,839	--	-79.6
One-Time Cost Reductions	--	--	--	-66,789	--	--
Full-Year Cost of New Programs	--	--	480.6	200,514	1	1,705.4
Other Workload Adjustments	-42,506	-8,948	2.1	68,216	-13,970	54.1
Totals, Workload Adjustments	\$460,854	-\$6,860	892.4	\$1,044,420	-\$11,563	3,115.2
Policy Adjustments						
Adult Probation Funding	--	--	--	50,000	--	--
Consolidated IT Infrastructure Project	--	--	--	32,421	--	16.7
Out of State Beds	10,344	--	59.9	13,158	--	96.2
Population and Caseload Savings	--	--	--	-56,700	--	--
Sentencing Commission	--	--	--	457	--	3.8
Sex Offender Management Plan	--	--	--	45,578	--	5.6
Shift of DJJ Population	--	--	--	-32,885	--	--
Teacher Pay and Schedule Parity	--	--	--	4,868	--	--
Other Policy Adjustments	--	--	--	-4,334	--	21.1
Totals, Policy Adjustments	\$10,344	\$0	59.9	\$52,563	\$0	143.4
Infrastructure Adjustments	\$13,369	\$56,589	--	\$376,369	\$9,677,764	--
Total Adjustments	\$484,567	\$49,729	952.3	\$1,473,352	\$9,666,201	3,258.6
Governor's Budget	\$9,235,706	\$573,143	63,667.0	\$10,043,307	\$9,999,225	65,973.3

* Dollars in Thousands

Similarly, under existing law the average daily parole population is projected to increase from 119,148 in 2006-07 to 122,148 in 2007-08, an increase of 3,000 parolees, or 2.5 percent. The 2006-07 Budget assumed an average daily parole population of 117,754.

The fiscal impact of these population increases in 2006-07 is an increase of \$9.7 million General Fund and a reduction of \$257,000 in other funds. In 2007-08, the fiscal impact is an increase of \$58.8 million General Fund, and an increase of \$533,000 other funds. Population changes for the last ten years are shown in Figure DCR-02.



Partnering With Local Law Enforcement—Beginning July 1, 2008, specified non-serious, non-violent felons with terms of three years or less will serve their sentences in county jails. This will not reduce the length of their sentences. This change is a pivotal component of the State’s historic partnership with local law enforcement. The Strategic Growth Plan will provide \$4.4 billion to local governments for the construction of jail facilities. Combined with a \$1.1 billion match, this will provide a significant investment in California’s criminal justice system.

Once these momentous changes are implemented, annual state prison costs will decrease by an estimated \$250 million

in 2008-09 and \$500 million in 2009-10 and ongoing.

The Administration recognizes that there will also be increased operating costs at the local level and is committed to working with legislators and local officials to address these costs as part of a comprehensive reform package.

The Budget includes estimated savings resulting from modifications to the parole structure, which will allow law enforcement to focus on those who pose the greatest risk of committing another crime. This includes automatic discharge from parole for individuals with 12 months of “clean time”, and no parole for low-level offenders upon completion of their prison sentences. The Budget also assumes the elimination of 90-day diagnostic evaluations. In total, these changes are estimated to result in savings of \$56.7 million in 2007-08 and \$75.5 million in 2008-09 and ongoing.

The Budget includes \$50 million in 2007-08 and \$100 million in 2008-09 and ongoing for local adult probation funding. These funds will be used to target the at-risk 18 to 25 year-old probation population, which accounts for the largest percentage of new felon admissions to the state prison system. The program will be modeled after the successful Juvenile Justice Crime Prevention Act program, which has had a positive impact on the juvenile offender population. Through shared responsibility for the offender population statewide, local governments and the state will each have a greater stake in positive outcomes.

Juvenile Offender Ward and Parolee Population—Under existing law, the Division of Juvenile Justice (DJJ) projects a juvenile institution population of 2,630 youthful offenders by June 30, 2007, 30 less than anticipated in the 2006

Budget Act. The 2007-08 year-end institution population is expected to decrease by 40 wards, resulting in a June 30, 2008 population of 2,490. Primarily due to delays in the implementation of smaller living units and associated staffing ratios called for in the Safety and Welfare and Mental Health Remedial Plans, the Governor's Budget proposes a decrease of \$9.3 million General Fund and \$488,000 other funds in 2006-07. There is an increase of \$8.2 million General Fund in 2007-08 due to the ongoing implementation of these additional units and staffing ratios. However, the overall costs in 2007-08 are lower than the level of funding originally approved in both of the remedial plans due to slower activation than initially anticipated. The total General Fund expenditures are partially offset by General Fund revenues from the sliding scale fees paid by counties. In 2006-07, these revenues are estimated to be \$16.7 million, a decrease of \$829,000 from the revenue expected at the time of the 2006 Budget Act. In 2007-08, these revenues are estimated to be \$15.8 million.

The juvenile parole population is expected to be 2,775 by June 30, 2007, a decrease of 160 from the 2006 Budget Act. By June 30, 2008, the juvenile parole population is expected to decrease by 240 from the level projected in the 2006 Budget Act to a total of 2,405. To address this change, the Governor's Budget proposes decreases of \$1.2 million General Fund in 2006-07 and \$2.4 million General Fund in 2007-08.

The population adjustment proposed in the Governor's Budget for the Juvenile Education Program reflects staffing ratios consistent with the requirements of the Education Remedial Plan. General Fund Proposition 98 funding

is projected to decrease by \$1.9 million in 2006-07 and \$2.6 million in 2007-08.

Shifting the Juvenile Justice Population—Beginning July 1, 2007, the DJJ will begin the process of shifting the population of juvenile offenders housed in state facilities to locals, and will provide resources to support their program and housing needs. The DJJ will reduce its population so that only the most serious and violent juvenile offenders are housed in DJJ facilities. Offenders convicted of lesser crimes will remain at the county level where they can benefit from programs provided by their local communities and be closer to potential support networks.

The DJJ will accomplish this shift by narrowing the scope of intake and phasing out a portion of its current population. Specifically, the DJJ will stop intake of female juvenile offenders and no longer house female offenders in DJJ facilities. The DJJ will stop intake for parole violators with an original non-violent offense and non-violent juveniles who are adjudicated by the court and who are currently committed to DJJ until age 21. The DJJ will further reduce its current population by returning non-violent juveniles who are the responsibility of the DJJ until the age of 21 to the jurisdiction of counties.

These changes are projected to result in DJJ's population being reduced by 1,338 juvenile offenders by June 30, 2008, as compared to the projections discussed above. To provide adequate programs and services to wards that are sent back to counties, or otherwise would have been committed to the DJJ but will now be held at the county level, the state will provide counties with funding through a block grant to support local

programs for these offenders. The block grant methodology will be evaluated in the future to determine if it results in an equitable distribution of funds. Also, the CDCR will audit the expenditure of the block grant funds to ensure that the resources are spent on the juvenile offender population. In 2007-08, an estimated \$53 million will be allocated to counties. Because the state's cost to provide housing and programming is greater than the funding to be provided to counties, this approach will result in a savings of \$32.9 million General Fund in 2007-08. There will be an additional reduction of \$10 million General Fund in 2007-08 resulting from the elimination of funding for the Juvenile Justice Community Reentry Challenge Grant.

OTHER POLICY ADJUSTMENTS

California Sentencing Commission—The Governor proposes to create the California Sentencing Commission to review and make recommendations on sentencing guidelines. The Commission will include the Attorney General, the Secretary of the Department of Corrections and Rehabilitation, and 15 members appointed by the Governor representing various stakeholders. The Commission will act as a clearinghouse and information center for sentencing, review proposed legislation affecting sentencing, and submit recommendations on sentencing guidelines to the Legislature each year. In the first year, the Commission will focus on California's parole system. The Budget includes \$457,000 General Fund for the Commission.

Comprehensive Sex Offender Management Plan—Consistent with the overwhelming mandate of voters in enacting Proposition 83, the Administration proposes a Sex

Offender Management Plan to address this population of inmates and parolees in order to ensure the safety of all Californians, especially children.

Prior to the passage of Proposition 83, the Governor convened the High Risk Sex Offender (HRSO) Task Force, which made a number of recommendations relating to the handling of HRSO inmates and parolees. Some of these recommendations were enacted in 2006 legislative measures. The Comprehensive Sex Offender Management Plan is comprised of HRSO Task Force recommendations, related legislation, and implementation of Proposition 83. The Budget includes a total of \$30.4 million General Fund in 2006-07 and \$122.8 million General Fund in 2007-08 and ongoing for CDCR to implement the Comprehensive Sex Offender Management Plan, specifically:

- \$25.1 million in 2006-07 and \$68.1 million in 2007-08 for the Division of Adult Parole Operations to provide GPS monitoring and supervision for 9,000 sex offender parolees pursuant to Proposition 83. These augmentations provide active GPS monitoring and 20:1 parole agent supervision ratios for 3,300 HRSO parolees and passive GPS monitoring and 40:1 parole agent supervision ratios for 5,700 other sex offenders.
- \$5.3 million in 2006-07 and \$7.5 million in 2007-08 for the Division of Adult Institutions, the Division of Adult Parole Operations, and the Board of Parole Hearings to address increased screening and hearing caseloads resulting from the changes to SVP laws contained in Proposition 83.

- \$42.7 million in 2007-08 for the Department to contract for the treatment of HRSO parolees, per the recommendations of the HRSO Task Force.
- \$1.7 million in 2007-08 to provide contracted biannual polygraph testing for HRSO parolees.
- \$1.6 million in 2007-08 to provide training for parole agents on the Sex Offender Containment Model, polygraph testing, and the State Approved Risk Assessment Tool for Sex Offenders (SARATSO), pursuant to recommendations of the HRSO Task Force and the provisions of Chapter 337, Statutes of 2006 (SB 1128).
- \$587,000 in 2007-08 for the Department to assign four parole agents to SAFE Teams based in each parole region, and to provide staffing support for community outreach and communication efforts related to the placement and monitoring of sex offenders.
- \$588,000 in 2007-08 for the Sex Offender Management Board, pursuant to an HRSO Task Force recommendation that was enacted by Chapter 338, Statutes of 2006 (AB 1015).

Additional funding for the implementation of Proposition 83 is included in the Department of Mental Health budget.

Consolidated Information Technology Infrastructure

Project—The Budget includes a net increase of \$32.5 million in 2007-08 for the Consolidated Information Technology Infrastructure Project. This project will consolidate the Department's information technology infrastructure and provide the basic network infrastructure for information

technology projects currently underway and others being proposed for legislative approval in the Budget. The estimated 2007-08 cost for this project is \$118.5 million, but the Budget assumes GS \$mart financing for the project's tangible assets. GS \$mart is the state's vehicle for lease-purchase financing and offers tax-exempt rates which are usually less costly than commercial lending rates. Financing the tangible assets over time will result in up to \$86 million in savings in the first year of the project. The Budget includes a savings set-aside that can be activated once vendor contracts are in place and actual financed payment amounts determined.

Out-of-State Beds—The Budget includes \$10.3 million in 2006-07 and \$13.2 million in 2006-07 to transfer 2,260 inmates to facilities in Arizona, Tennessee, Indiana, Oklahoma, and Mississippi. These transfers are necessary due to the significant safety risks to prison staff and inmates as a result of the current overcrowding.

Female Offenders—The Budget includes \$1.7 million General Fund in 2007-08 for the Department to perform pre-activation functions necessary to implement a program for Female Rehabilitative Community Correctional Centers. Once completed, these facilities will provide beds for 4,350 female offenders, and enhance treatment, vocational and educational services that target substance abuse and employability, and will strengthen family ties as offenders prepare to re-enter their communities.

The Budget also provides \$2.1 million to activate the Fresno Family Foundation program, a 35-bed community-based program for female offenders. This program will serve women who are non-violent, non-serious offenders with histories of

substance abuse and who are pregnant or parenting a child under the age of six.

WORKLOAD ADJUSTMENTS

Court and Lawsuit-Related Issues—The 2006-07 Budget includes an appropriation of \$100 million along with language that allows these funds to be transferred to the CDCR Healthcare Budget item to fund the activities of the Receiver appointed by the court in *Plata v. Schwarzenegger*. Of this amount, approximately \$50 million has been transferred to date, resulting in ongoing costs of approximately \$55 million, which are included in the Governor's Budget. In addition to funding these costs, the Governor's Budget proposes to continue the transfer language and provide \$150 million for new costs driven by the Receiver. This will allow the state to quickly respond to the fiscal needs of the Receiver. The Administration continues to work cooperatively with the Receiver to address correctional healthcare in the most efficient and comprehensive manner possible.

The Governor's Budget includes \$109.1 million to continue state efforts to comply with the requirements of the *Coleman v. Schwarzenegger* lawsuit. Included in these funds are \$13.2 million to retrofit intake cells within the Administrative Segregation units and \$50.6 million for salary increases for mental health professionals.

The Governor's Budget includes \$78.7 million to continue state efforts to comply with the stipulated agreement in *Perez v. Schwarzenegger*. This includes \$20.9 million to lower the ratio of dentists to inmate-patients to 1:515 (1:1,590

for Reception Centers) and \$57.8 million for potential salary increases for dental services providers.

Facility Maintenance and Equipment Replacement—

The Budget includes \$46 million General Fund to augment CDCR's \$190.1 million baseline budget for maintenance and special repairs. This funding provides for the establishment of regional heating ventilation and air conditioning maintenance teams, the maintenance of transformers, generators and high-voltage switchgear, strike teams to undertake ongoing preventative maintenance for facility roofs, electric fence system repairs and replacement, repair and replacement of roads and parking lots, and other critical facility maintenance issues.

The Budget also includes \$23 million for statewide major equipment purchases, including telephone system repairs and upgrades, replacement of trunked radio systems infrastructure, and replacement of buses. This augmentation will increase the Department's base budget for major equipment to \$76.7 million.

Residential Aftercare—To comply with the provisions of Chapter 875, Statutes of 2006 (SB 1453), the Budget includes an augmentation of \$1.3 million in 2007-08 for mandatory residential aftercare programs. Chapter 875 requires non-serious, non-violent inmates who have completed an in-prison drug treatment program to enter a 150-day aftercare drug treatment program and to be discharged from parole upon successful completion of the program. The Budget provides funding for 5,500 residential aftercare beds for non-serious, non-violent offenders.

Reducing Recidivism—The Budget builds on the 2006-07 investment of \$52.8 million for recidivism reduction and community reintegration activities by providing a total of \$93.9 million to continue the implementation of various program enhancements. These programs include educational needs assessments and substance abuse program expansions in institutions, structured re-entry services such as mandatory conditions of parole, and community reintegration programs including residential services for parolees, day reporting centers, and increased clinical services for mentally ill parolees.

INCARCERATION OF UNDOCUMENTED FELONS

The CDCR expects to spend approximately \$850 million in 2006-07 for the incarceration of undocumented persons. During 2005-06, the Administration worked closely with the federal government to increase the reimbursements that the state receives for incarcerating undocumented felons. As a result, the state will receive \$114.1 million in federal State Criminal Alien Assistance Program (SCAAP) funding for 2006-07. Undocumented persons are expected to comprise 10.5 percent of inmates in the state prison system. The CDCR's costs in 2007-08 are estimated to increase to \$897.3 million, an increase of 5.6 percent. For 2007-08, it is estimated that California will receive approximately \$114.1 million in federal SCAAP funding. At this level of funding, the state will be reimbursed for only 12.7 percent of the costs associated with the incarceration and related debt service associated with the undocumented felon population, with \$783.2 million in costs in excess of the level of federal reimbursements.

During the current fiscal year, the Administration will continue to aggressively pursue all strategies designed to maximize federal funding for the incarceration of undocumented felons.

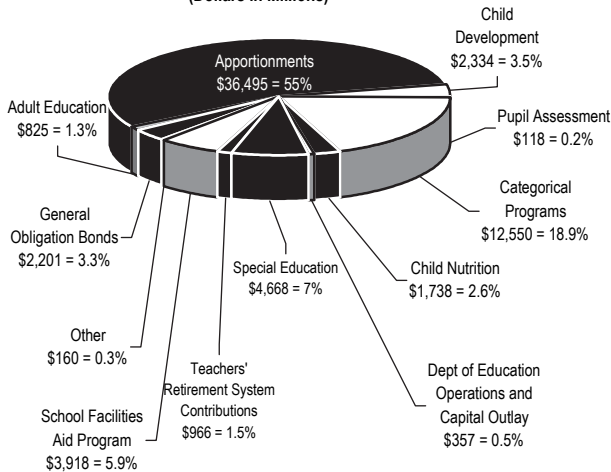
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K THRU 12 EDUCATION

Kindergarten through twelfth grade (K-12) education programs provide a variety of academic and support services primarily to pupils between the ages of three and nineteen. The programs equip California's young people with the skills to become successful adults, achieve career goals, obtain gainful employment and pursue higher education. The services include standards-based academic instruction, special education, vocational and career preparatory programs, child care and development, teacher recruitment and development and adult education and remedial instruction, among other services.

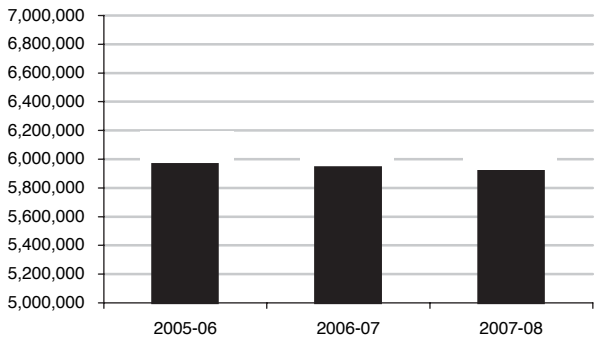
The Budget includes \$66.3 billion (\$40.5 billion General Fund and \$25.8 billion other funds) for K-12 education programs. This reflects an increase of \$2.8 billion (\$495.4 million General Fund and \$2.3 billion other funds) or 4.4 percent over the revised 2006-07 budget. The funding by program proposed for K-12 education is shown in Figure K12-01. More notable funding changes are further described below.

Figure K12-01
**Proposed K-12 Education Expenditures
for 2007-08
All Funds by Program
(Dollars in Millions)**



As a result of a steady decline in birth rates throughout the 1990s, attendance growth in public schools is declining (see Figure K12-02). For the current year, K-12 average daily

Figure K12-02
K-12 Average Daily Attendance



attendance (ADA) is estimated to be 5,941,000, a decrease of 23,000 or 0.39 percent from the 2005-06 fiscal year. For the budget year, the Administration estimates K-12 ADA will decrease by an additional 23,000 or 0.39 percent to 5,918,000.

Change Table K12-01 illustrates the major changes proposed to K-12 education spending in the Governor's Budget.

Change Table K12-01						
K thru 12 Education Agency - Changes by Broad Categories						
	2006-07			2007-08		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
2006 Budget Act	\$40,509,935	\$20,320,631	2,923.1	\$40,509,935	\$20,255,813	2,923.1
Workload Adjustments						
School Facilities Funding Adjustments	--	2,789,554	--	--	3,829,249	--
Local Property Tax Adjustments	-384,211	375,736	--	-1,583,251	1,581,991	--
Enrollment/Caseload/Population	-128,980	--	--	-286,424	--	--
Employee Compensation/Retirement	6,583	6,425	--	5,511	5,527	--
Statutory Cost-of-Living Adjustments	--	--	--	1,906,216	--	--
Expiring Programs or Positions	--	--	--	-1,865	-2,920	-20.1
One-Time Cost Reductions	--	--	--	-13,130	-275,659	-7.4
Other Workload Adjustments	-55,224	40,961	-27.9	548,750	38,391	-7.3
Totals, Workload Adjustments	-\$561,832	\$3,212,676	-27.9	\$575,807	\$5,176,579	-34.8
Policy Adjustments						
Charter School Facility Grant Program	--	--	--	43,887	--	--
Chief Business Officer Training	2,500	--	--	--	--	--
Encorps Teachers Program	10,000	--	--	--	--	--
Federal Forest Area Schools Loan	69,000	--	--	-69,000	--	--
High School Exit Exam Study Guides	--	--	--	5,000	--	--
Increase Proposition 98 Funds for CalWORKs Child Care	--	--	--	269,000	-269,000	--
Low-Performing School Enrichment Block Grant	50,000	--	--	--	--	--
Partnership for Success	--	--	--	1,500	--	--
Program Improvement Management System	--	--	--	1,000	--	--
Reduce Contributions to Supplemental Benefit Maintenance Account	--	--	--	-74,578	--	--
Fund Home-to-School Transportation from the Public Transportation Fund	--	--	--	-626,762	626,762	--
Other Policy Adjustments	-63,459	--	0.9	-124,214	2,316	9.8
Totals, Policy Adjustments	\$68,041	\$0	0.9	-\$574,167	\$360,078	9.8
Infrastructure Adjustments	\$0	\$15,062	--	\$0	\$26,656	--
Total Adjustments	-\$493,791	\$3,227,738	-27.0	\$1,640	\$5,563,313	-25.0
Governor's Budget	\$40,016,144	\$23,548,369	2,896.1	\$40,511,575	\$25,819,126	2,898.1

WORKLOAD ADJUSTMENTS

Major workload adjustments for 2007-08 include the following:

- **Cost-of-Living Adjustment (COLA) Increases —**
The Governor's Budget proposes a \$1.9 billion increase to fund a 4.04-percent statutory COLA: \$1.4 billion for revenue limits, \$133 million for special education, \$62.1 million for child care programs, \$49.6 million for class size reduction and \$277.9 million for various categorical programs.
- **School Facilities Funding Adjustments —**
The Governor's Budget proposes a \$2.8 billion increase in 2006-07 and a \$3.8 billion increase in 2007-08 for school facilities. The largest portion of the increases is for the 2004 and 2006 School Facilities Bonds. In particular, the newly approved 2006 bond fund adds over \$3 billion in new funding for current and budget years.
- **Adjustments for Average Daily Attendance (ADA) —**
The Governor's Budget proposes a \$286.4 million net reduction in 2007-08 to reflect the decline in ADA. The majority of this amount consists of a \$283.6 million reduction in school district and county office of education revenue limit apportionments (general purpose funding for schools). Due to the decline in attendance, there is a \$129 million reduction in revenue limit apportionments for 2006-07.
- **Local Property Tax Adjustments —** For 2006-07 and 2007-08, the Governor's Budget reflects General Fund decreases of \$375.7 million and \$1.6 billion, respectively. These revised estimates relate to school district and

county office of education property tax revenues. In general, increases in local property tax revenues reduce the amount of state General Fund costs for revenue limit apportionments.

The major policy adjustments included in the Budget are discussed in Program Enhancements and Other Budget Adjustments.

PROGRAM ENHANCEMENTS AND OTHER BUDGET ADJUSTMENTS

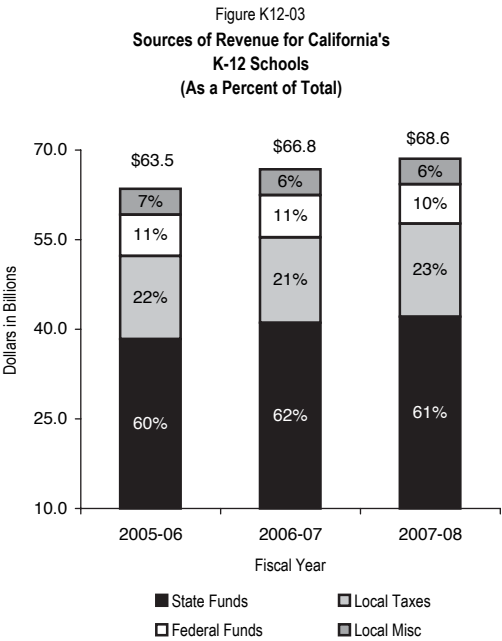
The 2007-08 Governor's Budget fully funds the Proposition 98 guarantee, as well as a number of new education initiatives, even while realizing General Fund savings in Proposition 98 and the California State Teachers' Retirement System.

Demonstrating the Administration's continuing commitment to improve California's public schools, the Governor's Budget proposes a number of new one-time and ongoing education initiatives. These proposals, along with the major education investments made by the Administration in the last three years, will continue to address the most pressing needs facing students and parents, including:

- Teacher shortages
- Transparent schoolsite information
- Career Technical Education
- Low-performing schools
- Preparing students to graduate from high school
- Improving student health

TOTAL FUNDING FOR K-12 EDUCATION

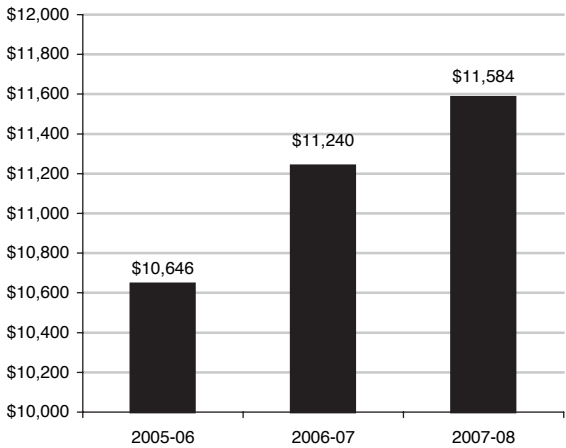
Total funding, including federal funding and local revenue, for K-12 education is projected to be \$68.6 billion. Figure K12-03 displays the revenue sources for schools.



PER-PUPIL SPENDING

Total per-pupil expenditures from all sources are projected to be \$11,240 in 2006-07 and \$11,584 in 2007-08, including funds provided for prior year settle-up obligations (see Figure K12-04).

Figure K12-04
**K-12 Education Total Spending
Per Pupil**



PROPOSITION 98 GUARANTEE

A voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to a multitude of factors including the level of funding in 1986-87, General Fund revenues, per capita personal income and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculations or Tests (Test 1 or Test 2). In 1990, Proposition 111 (SCA1) was adopted to allow for a third funding test in low revenue years. As a result, three calculations or tests determine funding for school districts and community colleges (K-14). The calculation or test that is used depends on

how the economy and General Fund revenues grow from year to year.

For fiscal year 2005-06, Proposition 98 funding was \$53.3 billion (this reflects the guarantee level as recalculated pursuant to the Proposition 98 Settlement Agreement), of which the General Fund share was \$39.6 billion or 74.3 percent. Local property taxes covered the balance. The 2006-07 Proposition 98 funding is estimated to be \$55 billion, a 3.2-percent increase over 2005-06. The General Fund share in 2006-07 is \$40.8 billion or 74.2 percent. These funding levels reflect the decline in attendance and the cost of apportionments.

Proposition 98 funding for 2007-08 is proposed at \$56.8 billion, a 3.3-percent increase over the revised estimate for 2006-07. The General Fund comprises approximately 72.5 percent, or \$41.2 billion of total proposed Proposition 98 funding (see Figure K12-05). The totals include funding for K-12, community colleges and other state agencies that serve students. K-12 Proposition 98 per-pupil expenditures in the Governor's Budget are \$8,569 in 2007-08, up from \$8,293 in 2006-07.

HOME-TO-SCHOOL TRANSPORTATION

The Budget proposes to shift the fund source for the \$627 million Home-to-School Transportation program from Proposition 98 General Fund to the Public Transportation Account (PTA). This shifts Home-to-School transportation out of the Proposition 98 guarantee, allowing for the guarantee to be rebenchd downward for General Fund savings of \$627 million. Because available PTA funds are used in lieu of Proposition 98 funds to fund Home-to-School Transportation,

Figure K12-05

Proposition 98 Appropriations
(Dollars in Thousands)

	2005-06	2006-07	2007-08
State General Fund	38,358,017	40,812,023	41,189,857
Local Revenue	13,761,557	14,210,346	15,645,203
Total	52,119,574	55,022,369	56,835,060
Distribution:			
Department of Education	46,485,854	48,945,279	50,385,924
California Community Colleges	5,472,403	5,897,062	6,274,142
Department of Corrections and Rehabilitation	45,780	52,964	54,250
State Special Schools	42,567	44,533	44,253
Commission on Teacher Credentialing	31,814	49,881	39,881
Department of Mental Health	18,400	13,400	18,400
Department of Developmental Services	10,217	9,121	8,677
School Facilities Aid Program	7,841	5,786	5,015
American Indian Education Centers	4,698	4,343	4,518
Total	\$52,119,574	\$55,022,369	\$56,835,060
Percentage Share of State General Fund			
SAL1 Revenues and Transfers	42.2%	43.7%	41.5%

¹ State Appropriations Limit, Article XIII B

this proposal does not result in a reduction to Home-to-School Transportation nor any other Proposition 98 funded program.

CHILD CARE SHIFT

The Budget proposes to increase Proposition 98 funding for CalWORKs Child Care by \$269 million. By using available Proposition 98 funds in lieu of federal Temporary Assistance for Needy Families (TANF) Block Grant funds for Child Care, this proposal allows a like amount of TANF funding to be redirected to offset non-Proposition 98 General Fund costs in the CalWORKs program. This proposal does not require a reduction to the CalWORKs program, nor does it reduce child care benefits.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM PURCHASING POWER PROTECTION

The California State Teachers' Retirement System (CalSTRS) administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to administer the State Teachers' Retirement Plan. The State Teachers' Retirement Plan is a defined benefit pension plan that provides retirement, disability and survivor benefits for teachers and certain other employees of the California public school system. The Plan is comprised of three programs: the Defined Benefit Program, the Defined Benefit Supplement Program and the Cash Balance Benefit Program. Within the Defined Benefit Program there is a Supplemental Benefit Maintenance Account (SBMA) that provides purchasing power protection for retired members. The SBMA provides annual supplemental payments in quarterly installments to retired teachers whose purchasing power has fallen below 80 percent of the purchasing power of the initial allowance due to price inflation. Currently, the 80-percent level of supplemental payments is not a vested benefit. This means that if the amount in the

SBMA is not sufficient to bring purchasing power up to the 80-percent level, supplemental payments may have to be suspended or paid at a lower level.

The state makes annual General Fund contributions to the SBMA of 2.5 percent of teacher payroll for purchasing power protection. An actuarial analysis performed in 2005 at the direction of the Department of Finance shows that the SBMA has more than enough money to provide purchasing power protection for current and future retired teachers. The Administration is proposing to fully vest the benefit at 80 percent purchasing power protection, which increases the future value of this program for retired teachers. As a result of the funded status of the SBMA, the state will be able to fully vest the purchasing power protection and reduce the state's contributions to the SBMA from 2.5 percent to 2.2 percent of salary for a General Fund savings of \$75 million.

ADDRESSING THE TEACHER SHORTAGE

ENCORPS TEACHERS

As California continues to face a severe teacher shortage, it is crucial that we explore innovative avenues to increase the number of individuals entering the teaching profession, particularly in the subject areas of math, science and career technical education. One untapped pool of individuals with subject matter expertise in these areas is the 11 million Californians who will retire by 2008.

As part of a broader effort to bolster supply, the Administration proposes \$10 million to create the EnCorps Teachers Program to add 2,000 experienced retirees to the teaching corps. The EnCorps Teachers Program would establish a

public-private partnership with industry and business to actively recruit retiring professionals to the classroom. Professionals recruited by the EnCorps Teachers Program would be supported during the completion of the program by their current employer and use existing California teacher internship programs to acquire the pedagogy necessary to be effective instructional leaders.

TEACHER CREDENTIALING REFORMS

Currently there are 175 different credentials for teachers of career technical education (CTE). The large number of credentials reflects an attempt to identify all industries and trades represented in California's K-12 instructional programs. This attempt to develop a comprehensive set of specialized credentials has had the negative effect of creating an overly complex and bureaucratic credential process for CTE teachers.

To remedy this problem, the Administration proposes introducing legislation directing the Commission on Teacher Credentialing (CTC) to establish a more comprehensive list of authorized subjects for the designated subject preliminary and clear vocational education teaching credentials by September 30, 2007, based upon the 15 industry sectors identified in the California CTE model curriculum standards. Streamlining the CTE credential process will: 1) create incentives for CTE teachers by allowing them to move more easily across subject areas, making CTE teaching a more viable professional choice; 2) provide districts with added flexibility, making it easier for them to hire CTE teachers and expand CTE course offerings; and 3) create a more transparent and approachable credentialing process, thus assisting recruitment efforts.

The Governor's Budget proposes to continue to authorize the CTC to redirect positions to its Credentialing, Assignments and Waivers Division to address the backlog in credential processing. While significant progress has been made during 2006-07, it is critical that the effort continue until the excessive backlog has been eliminated and the processing time restored below the 75-day standard. This will ensure that prospective teachers and the school districts can make timely employment decisions.

PROVIDING ONLINE, USER-FRIENDLY INFORMATION ON SCHOOLS

Over the past decade, the State of California has invested significant resources to collect an increasing amount of data from school districts. From demographic data of students and teachers to student performance and financial expenditures, California school districts collect extensive data and make over 100 reports to the Department of Education and other state educational agencies to meet state and federal reporting requirements.

Even with the plethora of educational data collected by state agencies, there is a dearth of useful information tools for parents, educators and policymakers to draw conclusions about the quality of schools and education in California.

The primary reason for the lack of useful information tools about education is the failure to integrate the vast amount of data into pertinent and meaningful ways for parents, educators, the public and policymakers. Too often, collected data proves useful only to those select few who have the time and expertise to bring disparately located data together for analysis. So long as the different data are isolated and

unrelated, the vast amount of information about our students and schools cannot be easily and effectively accessed and combined for easy understanding by parents, the public, educators and policymakers.

What is needed in California is an integrated and transparent system that is easily accessible and provides meaningful information to parents, the public, educators and policymakers. To this end, the Administration will be working with the Legislature, Superintendent of Public Instruction and other interested parties to redesign the School Accountability Report Cards so that they are parent-friendly and provide the relevant district and site level information that will allow schools to be compared to one another.

EXPANDING CAREER TECHNICAL EDUCATION

In an ever-evolving economy, Californians need multiple pathways to rewarding and productive careers. The Administration remains committed to expanding opportunities for high school and community college students to take high-quality, academically rigorous career technical education (CTE) courses.

Since the Governor launched his CTE initiative in 2005, the state has made significant investments aimed at reinvigorating CTE programs. As a result of investments beginning in 2005-06, we have begun to restore the capacity and vitality of CTE programs. California is making significant progress in building CTE programs that will provide students with additional options and opportunities and help to meet the changing demands of California business and industry.

The Governor's Budget proposes \$52 million to expand CTE course offerings and programs. These resources include \$20 million in Community College base funding for CTE programs as well as the \$32 million in new funding provided pursuant to Chapter 751, Statutes of 2006 (SB 1133). (For additional information, see the Higher Education Chapter.)

NEW RESOURCES AND TOOLS FOR LOW-PERFORMING SCHOOLS

PROPOSITION 98 SETTLEMENT AGREEMENT

The Budget includes \$300 million to begin payment of the \$2.9 billion in Proposition 98 settle-up obligations for the 2004-05 and 2005-06 fiscal years. Of that amount, \$268 million will be provided to approximately 450 to 500 school sites to meet specific goals such as reducing class sizes, reducing student-to-counselor ratios and providing teacher professional development. Participating schools will be required to accomplish these goals over a three-year period. Up to 15 percent of the funding can be used for research-based alternatives to the goals identified above. Schools will be required to exceed their Academic Performance Index (API) growth targets beginning in the fifth year of program participation.

Community Colleges will receive \$32 million to improve and expand the number of career technical education programs and course offerings in secondary schools and lower division public higher education.

CALIFORNIA PROGRAM IMPROVEMENT MANAGEMENT SYSTEM

Recent research shows that among schools serving similar students, four factors distinguish high-achieving

schools from those that are low-achieving. Specifically, high-achieving schools:

- Give the highest priority to student achievement.
- Implement a coherent, standards-based instructional program.
- Ensure availability of sufficient instructional resources such as textbooks, materials and supplies.
- Use assessment data to continually improve student achievement and instruction.

However, many principals at low-achieving schools have had little or no training in the interpretation of assessment data. Among those who have, many are unable to translate the implications into specific actions to improve student achievement and instruction. Even when principals know what steps to take to improve achievement, they may be unaware of the resources available to help them do so.

In order to address these problems, the Administration proposes \$1 million to establish the California Program Improvement Management System (Cal PIMS). This system will provide low-achieving schools and school districts a unified intervention program, including research-based programs and virtual coaching, to turn around federal Program Improvement schools or those that are subject to academic intervention by the state.

Specifically, Cal PIMS will optimize the capability of coaches, principals and teachers to:

- Use assessment data to target areas for intervention.

- Access up-to-date information on federal and state accountability requirements.
- Use tools, structures and relevant research to respond to these requirements.
- Access recommended steps and processes to build a sustainable action plan to accelerate student achievement.

SCHOOL ENRICHMENT BLOCK GRANT

A healthy school environment that is conducive to student learning not only increases pupil achievement, but allows for effective schoolsite leadership and the recruitment and retention of qualified teachers. To continue progress made on improving the educational environment and culture of schools in the lowest three deciles of the Academic Performance Index over the past two years, the Governor's Budget proposes \$50 million in one-time funding to continue the Low-Performing School Enrichment Block Grant for a third year. These funds are available for activities including: (1) assuring a safe, clean school environment for teaching and learning; (2) providing support services for students and teachers; (3) creating incentives, including differential pay, to help recruit and retain highly qualified teachers and highly skilled principals; (4) fostering small group instruction; and (5) giving teachers and principals time to work together to improve academic outcomes for students.

PREPARING STUDENTS TO GRADUATE FROM HIGH SCHOOL

CAHSEE INTERVENTION MATERIALS

The California High School Exit Exam (CAHSEE), a cornerstone of the state's accountability system, helps to ensure that all students graduate from high school with at least the basic knowledge and skills needed in the workplace and in life. With each administration of the exam, increasing numbers of students are demonstrating their competency in reading, writing and mathematics. The CAHSEE plays a vital role in helping to identify students who are struggling so they can get the targeted assistance they need to succeed. As a result, an unprecedented level of resources and attention has been focused on assisting at-risk high school students.

The Governor's Budget proposes \$5 million for school districts to purchase individual intervention materials for students who have failed or are at risk of failing the CAHSEE. These materials include customized on-line tools to help students and teachers target remediation efforts. By tailoring interventions to a student's individual needs, the materials optimize the student's likelihood of success. Staff development support for teachers is provided in conjunction with the materials. Funding for these materials was first provided in the 2006 Budget Act.

PARTNERSHIP FOR SUCCESS

To increase the number of students academically prepared to succeed in college, the Administration proposes expanding an innovative private-public partnership model that promises financial assistance for higher education costs to students who commit to completing a rigorous college-preparatory program. The Partnership for Success would provide grants totaling \$1.5 million to fund three partnerships between local

school districts and a CSU campus. These partnerships will develop RoadMaps for participating students to guide them through middle and high school to ensure they complete the A-G course offerings necessary to meet CSU entrance requirements. The CSU campus would guarantee admission for students that complete the RoadMap and, once admitted, provide students with additional support including assistance in developing a plan for completing course requirements to ensure degree completion within four years. Additionally, Partnership for Success fosters a college-going culture among students and parents by exposing them to the CSU campus through site visits, mentoring and tutoring and ongoing communication with the university.

IMPROVING STUDENT HEALTH

Last year, in keeping with its commitment to promote student health and combat childhood obesity, the Administration proposed to increase the state reimbursement rate for School Nutrition Program meals and remove unhealthy fats and fried food from student meals. Unfortunately, the resulting legislation did not meet the Administration's goals and was vetoed.

The Administration continues to support an increase in the meal reimbursement rate along with legislation that will eliminate unhealthy fats and fried food from school cafeteria menus. The Administration would like to see schools use their increased reimbursement rates to purchase and prepare healthier food for their students.

OTHER POLICY ISSUES

LOANS FOR NATIONAL FOREST AREA SCHOOLS

Rural communities often have difficulty providing educational programs for youth because they cannot benefit from economies of scale. For several years, the federal government has aided local education agencies in national forest areas. Because a sunset provision in federal law was not extended, this support was not provided in the current year.

In order to mitigate the short-term hardship for rural schools that have come to depend on this support, the Administration proposes a short-term \$69 million current year General Fund loan to backfill the loss of federal aid. Our understanding is that Congress intends to renew this funding relatively early in its next session, so the districts will be able to repay the state loans in the budget year.

CHARTER SCHOOL FACILITY GRANTS

To ensure that pupils from low-income families have access to high-quality educational alternatives, the Budget proposes \$43.9 million from the Proposition 98 Reversion Account to fund the Charter School Facility Grant Program. This program mitigates the cost of leasing facilities for charter schools that serve predominantly low-income populations. Of the funds to be provided, \$20 million is intended to reimburse qualifying facility costs for 2006-07 while the remaining \$23.9 million will serve as an advance on budget year costs.

MEETING CALIFORNIA'S INFORMATION NEEDS

Timely and accurate information is increasingly critical in the education decision making process at all levels, from local schoolsite decisions to decisions made at the federal level and the Administration remains committed to enhancing the

quality of data available on the state's student population and the teacher workforce. To support this effort, the Governor's Budget proposes \$2.5 million from state and federal funding sources to support state-level activities necessary to continue the development of the California Longitudinal Pupil Achievement Data System (CalPADS). The Governor's Budget proposes \$1.1 million in federal Title II funding to support state-level activities at both the Department of Education and the Commission on Teacher Credentialing to continue the development of the California Longitudinal Teacher Integrated Data Education System (CalTIDES).

CHIEF BUSINESS OFFICER TRAINING

The Chief Business Officer (CBO) Training Program was established in 2005 to provide CBOs and CBO candidates with training in the skills and knowledge required to successfully administer school district budgets. Participants receive rigorous instruction in school finance, school operations and leadership for a period of at least 200 hours. The program was designed as a three-year effort to train over 1,000 CBOs. Priority for participation in the program goes to candidates nominated by school districts that have recently experienced fiscal distress. The 2005-06 Budget Act provided \$1.1 million to fund the first cohort of 350 participants. The Governor's Budget proposes \$2.5 million to fund training for 700 additional candidates, completing the objectives of the program.

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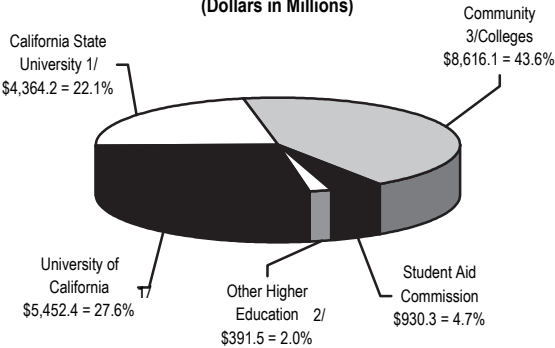
HIGHER EDUCATION

Higher Education provides the adult population with basic and career skills, postsecondary, graduate and doctoral instruction, and research to develop the workforce, intellectual capital, and innovations necessary to promote the economy and well being of the state's citizenry. Guided by the 1960 Master Plan for Higher Education (Master Plan), California's higher education segments are world renowned for their clear differentiation in missions, high quality of instruction, maximum student access, and low student fees. The Governor's Budget continues the State's commitment to this first-class system of higher education through significant funding increases for enrollment growth, basic budget support, financial aid and expansion of recent initiatives in science and math teacher preparation, career technical education, and nursing enrollment expansion. Additionally, the Governor's Budget proposes two new initiatives to address pressing state needs: one is focused on UC's research capability to help ensure California's leadership in cutting edge, environmentally friendly technology and industrial growth for the future and the other focuses on increasing the rate of meaningful educational outcomes for the most at-risk community college students.

In 2004, the Governor entered into an agreement with the University of California (UC) and the California State University (CSU) called the Higher Education Compact (Compact). The Compact provides a six-year resource plan for the UC and the CSU that addresses annual base budget increases including general support increases of up to 5 percent, enrollment growth of 2.5 percent, student fee increases that may not exceed 10 percent, and other key program elements through 2010-11. In exchange for long-term fiscal stability, the UC and the CSU have committed to preserving and improving student and institutional performance in numerous program areas including program efficiency, utilization of systemwide resources, and student-level outcomes. The resources provided through the Compact enable the UC and the CSU to accomplish their missions outlined in the Master Plan.

The Governor's Budget reflects total funding of \$19.8 billion, including \$14.1 billion General Fund and Proposition 98 sources for all major segments of Higher Education (excluding infrastructure, self supporting auxiliary enterprises and extramural programs, and stem cell research), which reflects an increase of \$1.1 billion (\$846.4 million General Fund and Proposition 98 sources) above the revised 2006-07 budget. These amounts represent a 5.7-percent total funding increase including a 6.4-percent increase in General Fund and Proposition 98 sources above the revised 2006-07 budget. The funding by major segment is shown in Figure HED-01. Notable funding changes are further described below.

Figure HED-01
Proposed Higher Education 2007-08 Expenditures
All Funds
 (Dollars in Millions)



1/For purposes of this table, expenditures for the UC and CSU have been adjusted to exclude self-supporting functions such as auxiliary enterprises and extramural programs among others. This provides consistency in comparing magnitudes and growth among the various segments of education.

2/The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.

3/For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue, as a component of the state's obligation under Proposition 98.

PROPOSED HIGHER EDUCATION SPENDING FOR 2007-08

Change Table HED-01 illustrates the major changes proposed to Higher Education spending in the Governor's Budget, inclusive of infrastructure, self-supporting programs, and stem cell research.

FUNDING BY SEGMENT FOR 2007-08

As shown in Figure HED-02, the Budget reflects increases described below. Nearly all of the increase is attributable to workload adjustments as detailed later in this section.

Change Table HED-01
Higher Education Agency - Changes by Broad Categories

	2006-07			2007-08		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
2006 Budget Act	\$11,368,281	\$26,079,375	116,729.2	\$11,359,208	\$23,970,756	116,729.2
Workload Adjustments						
CCC Counseling and Tutoring Services	--	--	--	33,110	--	--
Increase for CCC Nursing Programs	9,000	--	--	9,000	--	--
Local Property Tax Adjustments	--	4,095	--	-197,172	197,172	--
Stem Cell Local Assistance Grants	--	-104,942	--	--	523,700	--
Higher Education Compact	--	--	--	345,864	--	--
Cal Grant Adjustments	-20,206	--	--	41,102	--	--
Debt Service Expenditure Adjustments	-16,355	--	--	96,645	13,173	--
Fee Revenue Adjustments	--	18,797	--	33,245	240,670	--
Extramural and Other Non-State Supported Programs	--	-1,315,489	--	--	-1,001,947	--
Enrollment/Caseload/Population	--	--	--	115,457	--	--
Employee Compensation/Retirement	23,727	2,564	--	34,218	1,799	--
Statutory Cost-of-Living Adjustments	--	--	--	238,152	--	--
Expiring Programs or Positions	--	-397	-8.4	--	-915	-14.6
One-Time Cost Reductions	--	365	--	-87,775	-4,877	--
Other Workload Adjustments	6,647	58,368	2,832.0	-33,028	59,522	3,699.8
Totals, Workload Adjustments	\$2,813	-\$1,336,639	2,823.6	\$628,818	\$28,297	3,685.2
Policy Adjustments						
UC Research Initiative	--	--	--	20,000	--	--
Other Policy Adjustments	1,000	--	--	-5,482	175	1.9
Totals, Policy Adjustments	\$1,000	\$0	--	\$14,518	\$175	1.9
Infrastructure Adjustments	-\$3,702	-\$98,696	--	\$0	\$2,345,816	--
Total Adjustments	\$111	-\$1,435,335	2,823.6	\$643,336	\$2,374,288	3,687.1
Governor's Budget	\$11,368,392	\$24,644,040	119,552.8	\$12,002,544	\$26,345,044	120,416.3

* Dollars in Thousands

For the UC, the Budget includes \$5.5 billion (\$3.3 billion General Fund), which reflects an increase of \$345 million (\$192.1 million General Fund) above the revised 2006-07 budget. These amounts reflect a 6.8-percent total funding increase including a 6.2-percent General Fund increase over the current year.

For the CSU, the Budget includes \$4.4 billion (\$3 billion General Fund), which reflects an increase of \$270.6 million (\$165 million General Fund) above the revised 2006-07 budget. These amounts reflect a 6.6-percent total funding increase including a 5.9-percent General Fund increase over the current year.

Figure HED-02

Higher Education Expenditures
General Fund, Lottery Funds, State School Fund,
Local Revenues and Student Fees
(Dollars in Millions)

	2005-06	2006-07	2007-08	Change from 2006-07	
				Dollar	Percent
University of California ^{1/}					
Total Funds	\$4,812.4	\$5,107.4	\$5,452.4	\$345.0	6.8%
General Fund	2,838.6	3,078.0	3,270.1	\$192.1	6.2%
California State University ^{1/}					
Total Funds	3,834.5	4,093.6	4,364.2	\$270.6	6.6%
General Fund	2,596.0	2,811.4	2,976.3	\$164.9	5.9%
Community Colleges					
Total Funds	7,764.8	8,293.9	8,616.1	\$322.3	3.9%
General Fund & P98 ^{3/}	5,737.2	6,190.4	6,552.7	\$362.3	5.9%
Student Aid Commission (GF)					
Total Funds	820.5	865.9	930.3	\$64.4	7.4%
General Fund	735.5	827.2	891.6	\$64.4	7.8%
Other Higher Education ^{2/}					
Total Funds	307.1	327.8	391.5	\$63.7	19.4%
General Fund	280.4	299.6	362.3	\$62.7	20.9%
Total Funds	\$17,539.3	\$18,688.6	\$19,754.5	\$1,066.0	5.7%
General Fund	\$12,187.7	\$13,206.6	\$14,053.0	\$846.4	6.4%

^{1/} For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income, but exclude self-supporting functions such as auxiliary enterprises and extramural programs among others. This provides consistency in comparing magnitudes and growth among the various segments of education.

^{2/} The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.

^{3/} For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue, as a component of the state's obligation under Proposition 98.

For the California Community Colleges (CCC), the Budget includes \$8.6 billion (\$6.6 billion from General Fund and Proposition 98 sources), which reflects an increase of \$322.3 million (\$362.3 million General Fund and Proposition 98 sources) above the revised 2006-07 budget. These amounts reflect a 3.9-percent total funding increase including a 5.9-percent General Fund and Proposition 98 increase over the current year.

For the California Student Aid Commission (CSAC), the Budget includes \$930.3 million (\$891.6 million General Fund) in local

assistance funding, which reflects an increase of \$64.4 million General Fund above the revised 2006-07 budget. These amounts reflect a 7.4-percent total funding increase including a 7.8-percent General Fund increase over the current year.

HIGHER EDUCATION STUDENT ENROLLMENT

Enrollment levels for the UC and the CSU are driven by projections of eligible students in accordance with the Master Plan for Higher Education. Consistent with the Compact and enrollment projections of the Demographic Research Unit (DRU) within the Department of Finance, enrollments are estimated to grow by an average of 2.5 percent annually over the next five years. Historically for CCC, a minimum level of enrollment growth is calculated based upon the change in adult population from year to year. While this calculation guides the minimum level of growth funding, the Administration and Legislature have exercised discretion to provide more funding to respond to changing enrollment demands. In most years, CCC has received growth funding in excess of the growth in the adult population in order to respond to key variables that drive enrollments at community colleges such as unemployment and market demand. With budgeted growth for the three public higher education segments, the overall increase in the number of students expected to be served in 2007-08 is 35,753 FTES for a total of 1,749,545 FTES.

STUDENT FEES

UC and CSU Student Fees—The UC proposes fee increases of 7 percent for undergraduates, graduate students, and most professional schools. The CSU proposes fee increases of 10 percent for undergraduates, credential candidates, and other graduate students. Despite these increases,

fees remain very competitive, with the UC's fees below the average of comparable national institutions and the CSU's fees as the lowest in the nation for comparable 4-year comprehensive colleges. Both the UC and the CSU plan to set aside at least one-third of the increased fee revenue for financial aid, consistent with the Compact's provisions.

Community Colleges Fees—The Budget proposes no fee increase. CCC college fees for credit courses will remain at \$20 per credit unit pursuant to agreement reached in negotiations on the 2006 Budget Act. CCC fees remain the lowest in the nation by far and are just 24 percent of the national average. See Figure HED-03 for current and proposed fee levels and comparisons with other public institutions for all higher education segments.

WORKLOAD ADJUSTMENTS

The 2007-08 Budget continues the Governor's objectives for providing access and preserving quality instruction through full funding for basic budget support and enrollment growth in accordance with the Compact agreement; full funding for enrollment growth and COLA for the CCC within the growth in the Proposition 98 Guarantee in accordance with the new funding formula contained in Chapter 631, Statutes of 2006; and full funding for the Cal Grant Program. While fee increases within the limitations of the Compact are proposed, the UC and the CSU will set aside sufficient fee revenue to offset tuition increases in accordance with the Compact to ensure no additional financial hardships for needy students. Significant General Fund and Proposition 98 related workload and baseline adjustments are detailed for each major segment as follows:

Figure HED-03
Higher Education Fees

2006-07 Fee Comparison

	California				Other Public Institutions (2006-07)		
	2006-07	2006-07	2007-08	2007-08	Average	Highest	Lowest
	Ed/Reg	Fee	Ed/Reg	Fee			
	Fee		Fee				
UC ^{a/}							
Undergraduate	\$6,141	\$6,852	\$6,636	\$7,347	\$8,354	\$9,723	\$6,129
Graduate	\$6,897	\$8,938	\$7,440	\$9,481	\$11,288	\$14,991	\$9,448
CSU ^{b/}							
Undergraduate	\$2,520	\$3,199	\$2,772	\$3,451	\$6,665	\$9,994	\$3,684
Graduate	\$3,102	\$3,781	\$3,414	\$4,093	na	na	na
Teacher Prep.	\$2,922	\$3,601	\$3,216	\$3,895	na	na	na
CCC ^{c/}							
Lower Division	\$690		\$600		\$2,481	\$5,689	\$1,191

^{a/} UC's 2006-07 undergraduate education fee of \$6,141 (\$6,897 for graduate students), includes a registration fee of \$735. Total fees include an additional average campus-based fee of \$711 for undergraduate students and \$2,041 for graduate students. In 2007-08, the registration fee will increase to \$786 for both undergraduate and graduate students. The campus-based fees do not reflect a change from 2006-07, since they have not yet been determined by UC. UC's 2007-08 fees reflect an increase of 7 percent. (These fees include a \$60 temporary surcharge to cover income losses associated with a student fee lawsuit.)

^{b/} CSU's total fees in 2006-07 include a campus-based fee of \$679 for all students. CSU's 2007-08 education fees reflect an increase of 10 percent, while the campus-based fee will remain at \$679 for all students.

^{c/} Comparison data for other states reflect 2005-06 data. 2006-07 fee levels are based on 15 units @ \$26 per unit for Fall 2006, and 15 units @ \$20 per unit for Spring 2007, reflecting a mid-year student fee reduction enacted by trailer bill legislation.

2006-07 Professional School Fee Comparison:

	UC ^{d/}	Other Public Institutions		
		Average	Highest	Lowest
Law	\$25,101	\$25,348	\$35,501	\$14,762
Medicine	\$22,753	\$25,678	\$30,100	\$21,377
Business Administration	\$24,634	\$24,864	\$35,989	\$9,642

^{d/} Professional fees reflect the average among campuses.

UNIVERSITY OF CALIFORNIA

Budget Year

- \$116.7 million increase (4 percent) for basic budget support.
- \$54.4 million increase (2.5 percent) for enrollment growth. This funding will enable UC to enroll an additional 5,000 state-supported students.
- \$104.7 million increase in fee revenue associated with the 7-percent fee increase for undergraduate, graduate, and professional school students. One-third of the revenue generated by the fee increases for undergraduate and professional programs and 45 percent of the revenue generated by the graduate fee increase will be set aside for financial aid.
- \$14 million continuation of one-time funds for costs associated with sustaining UC Merced operations for a total funding level of \$24 million.
- \$757,000 to restore nursing funding for expansion of entry-level master's nursing programs pursuant to Chapter 592, Statutes of 2005 (SB 73).
- \$570,000 increase for the next cohort of 38 students for the PRIME Program, which targets prospective medical doctors for underserved populations.
- \$10.5 million increase for annuitant health benefits.
- \$15.8 million increase for lease purchase payments.
- \$19.3 million reduction by eliminating the legislative augmentation for Student Academic Preparation and Education Programs.

HIGHER EDUCATION

- \$6 million reduction by eliminating the legislative augmentation for the Labor Institutes.

Current Year

- \$1.3 million increase for lease-purchase payments.

CALIFORNIA STATE UNIVERSITY

Budget Year

- \$108.7 million increase (4 percent) for basic budget support.
- \$65.5 million increase (2.5 percent) for enrollment growth. This funding will enable CSU to enroll an additional 8,355 state-supported students.
- \$97.8 million increase in fee revenue associated with a 10-percent fee increase for undergraduate, graduate, and teacher credential candidates. One-third of the revenue generated by the fee increases will be set aside for financial aid.
- \$2 million increase for the next phase of the Science and Math Teacher Initiative that began with the 2005 Budget Act.
- \$120,000 increase (4 percent) for the Capitol Fellows Program consistent with the Compact.
- \$23.3 million to continue the increase for retirement costs.
- \$2.7 million reduction for lease purchase payments.

- \$7 million reduction by eliminating the legislative augmentation for Student Academic Preparation and Education Programs.

Current Year

- \$23.3 million increase for retirement costs.
- \$2.0 million reduction for lease purchase payments.

CALIFORNIA COMMUNITY COLLEGES

Budget Year

- \$109.1 million increase (2 percent) for enrollment growth for Apportionments. This funding will enable CCC to enroll an additional 23,000 full time equivalent (FTE) students.
- \$224.9 million increase for a cost-of-living increase (4.04-percent COLA) for general-purpose Apportionments.
- \$19.6 million increase for Categorical Program enrollment growth and COLA (2 percent and 4.04 percent, respectively) for Basic Skills, Matriculation, Disabled Students Programs and Services, Campus Childcare Tax Bailout, and Extended Opportunity Programs and Services.
- \$33.1 million redirection of surplus Basic Skills overcap incentive funding to support additional Matriculation and support services for community college students (See Program Enhancements and Other Budget Adjustments section for additional detail).

HIGHER EDUCATION

- \$9 million one-time current year funding and \$9 million in ongoing funding to support additional nursing program investments in community colleges (See Program Enhancements and Other Budget Adjustments section for additional detail).
- \$33.2 million increase to offset the remaining fee revenue reduction incurred by colleges in the budget year due to the reduction in student fees from \$26 per unit to \$20 per unit in the spring of 2007 and other workload adjustments.
- \$197.2 million reduction to Apportionments to reflected estimated growth in local property taxes of an identical amount.

Current Year

- \$4.1 million increase in property tax revenue based on revised estimates.
- \$6.6 million estimated increase in fee revenue reflecting an increase in the average number of credit units taken per FTES.

STUDENT AID COMMISSION

Budget Year

- \$61.3 million increase over the revised 2006-07 level for anticipated growth in the Cal Grant Program, reflecting increased participation and the anticipated undergraduate fee increases of 7 percent and 10 percent at UC and CSU, respectively.

- \$2.9 million increase over the revised 2006-07 level for anticipated growth in costs in the Assumption Program of Loans for Education (APLE).
- Authorization for 600 new warrants for the APLE program for students participating in the Governor's Science and Math Teacher Initiative.

Current Year

- \$19.7 million in savings in the Cal Grant and APLE programs.

PROGRAM ENHANCEMENTS AND OTHER BUDGET ADJUSTMENTS

The 2007-08 Governor's Budget proposes significant increased investments for the Science and Math Teacher Initiative for the CSU, the Nursing Initiative for the CCC and the UC, and the Career Technical Education (CTE) Initiative funded through the CCC budget. Moreover, the Budget proposes the first increment of a new UC research initiative that makes strategic investments designed to maintain California's leadership position as an incubator for new cutting edge industry development and a new Student Success Initiative to help at-risk Community College students succeed in achieving certificates and degrees. Highlights of each initiative and other policy proposals are detailed below:

UNIVERSITY OF CALIFORNIA RESEARCH— KEEPING THE STATE ON THE CUTTING EDGE

California is the national leader in innovation. California has more scientists, engineers and researchers than any other state. Supported by some of the world’s finest universities and research institutions, California is responsible for one in four patents, attracts half of all venture capital, and provides 20 percent of all technology jobs in the United States. Research conducted at the University of California is one of the primary engines powering this innovation, as well as the state’s economy, and is critical to keeping California competitive in the global market.

The Governor’s Budget includes \$95 million for four major projects: \$30 million for the Helios Project, \$40 million for the Energy Biosciences Institute, \$19.8 million to the California Institutes for Science and Innovation, and \$5 million for the Petascale Supercomputer project. These projects conduct research in the key areas of “clean” energy technology, biotechnology, and nanotechnology. These funds have the potential to leverage private and federal funding in excess of \$1 billion.

HELIOS PROJECT

The Governor’s Budget provides \$30 million in lease revenue bonds for the Helios Project, a groundbreaking initiative by the University of California’s Lawrence Berkeley National Laboratory to create sustainable, carbon-neutral sources of energy. The Helios Project will produce the next generation of super-efficient solar energy technology that will help reduce greenhouse gases and our oil dependency. The Helios Project’s four goals are to: 1) generate clean sustainable alternatives to hydrocarbon fuels; 2) develop

new energy sources; 3) improve energy conservation; and 4) reduce greenhouse gas emissions. The \$30 million in the Budget is provided as the state's share of a new \$100 million, 100 thousand square-foot energy/nanotechnology research building for the Helios Project.

ENERGY BIOSCIENCES INSTITUTE

The Governor's Budget provides \$40 million in lease revenue bonds to the University of California for UC Berkeley or UC San Diego in the event that either wins a global competition for the BP's Energy Biosciences Institute grant. These campuses were among only five universities in the world that were invited to compete for this \$500 million grant to build and operate an Energy Biosciences Institute, which will be dedicated to long-term research into the production of alternative fuels. The Institute will focus on converting biomass materials into fuels, converting fossil fuels to energy with less environmental damage and maximizing oil extraction from existing wells in environmentally sensitive ways. To accelerate California's movement towards a clean fuel future, the University of California will coordinate the Institute's work with the Helios Project.

CALIFORNIA INSTITUTES FOR SCIENCE AND INNOVATION

The Governor's Budget provides \$19.8 million for the California Institutes for Science and Innovation. The four Institutes are a multidisciplinary research effort by the University of California—working in partnership with 275 private companies—to engage the UC's research faculty directly with California companies in attacking large-scale issues critical to California's economy and its citizens' quality of life. With the express goal of sustaining California's global growth and competitiveness, the CISI bring the world's

finest researchers together to find solutions to our greatest medical and technological challenges and position California at the forefront of research, innovation and jobs. Information technology, biomedical research, nanotechnology, health care and energy systems are among the areas of focus for the Institutes. The \$19.8 million will fund advanced technology infrastructure, personnel, and provide seed money to build new research teams. In just five years, nearly half a billion dollars in federal funds already have been brought to California by Institute researchers.

PETASCALE SUPERCOMPUTER

The University of California leads the world in high-speed computer technology and is poised to debut the next generation of supercomputers. The University of California is competing against institutions in other states to become the site for a new \$200 million Petascale computer facility funded by the National Science Foundation. The Governor's Budget provides the first \$5 million in state matching funds to enhance the University of California's bid. The Petascale computer, named for the speed at which it can process information, will be the most powerful computer in the world. It will provide an enormous competitive advantage to California businesses and universities, helping to attract the best students and faculty from around the world. The Governor's commitment of these funds will significantly enhance the University of California's bid for this groundbreaking project.

OTHER HIGHER EDUCATION INITIATIVES

CAREER TECHNICAL EDUCATION INITIATIVE

In an ever-evolving economy, California students need multiple pathways to rewarding and productive careers.

The Administration remains committed to expanding opportunities for high school and community college students to take high-quality, academically rigorous career technical education (CTE) courses. Chapter 352, Statutes of 2005 (SB 70) marked the beginning of the Governor's CTE Initiative, providing \$20 million for CTE courses in high schools and Community Colleges. As a result of the investments in the last two fiscal years, the state has begun to restore the capacity and vitality that many CTE programs had lost due to decades of erosion in these programs. California is making significant progress in building CTE programs that will provide students with additional options and opportunities and help to meet the evolving demands of California business and industry.

The Budget proposes \$52 million to expand CTE course offerings and programs. These resources include \$20 million in the CCC's base funding for SB 70 programs as well as \$32 million in new funding provided pursuant to Chapter 751, Statutes of 2006 (SB 1133). The Administration proposes that these funds be used for the following activities: expanding the number of CTE courses offered in high schools; building stronger partnerships between the business sector and educational institutions; planning and implementing CTE curriculum for emerging industries; expanding internship opportunities for students; establishing career exploration opportunities for middle school students; creating career-themed high schools; establishing streamlined pathways for becoming a CTE teacher; and creating several pilot career academies for young adults and high school dropouts who are unable to maintain living wage employment due to academic deficiencies.

CCC STUDENT SUCCESS INITIATIVE

The Budget proposes to redirect \$33.1 million in underutilized, ongoing funds for improving student outcomes. These funds are currently dedicated for student instruction that exceeds district funding limits and are not projected to be needed in the foreseeable future. Instead, this amount is proposed to help the most at-risk, first time students that are in transition from high school to define and complete specific academic goals. \$14 million is provided for additional core Matriculation Program services, which includes orientations, counseling and academic assessment, referrals to specialized services, evaluation of study skills, and advising on course selection. \$19.1 million is provided for targeted counseling services to help assess career options, evaluate aptitudes, and form an academic plan of study for career preparation for those students that are most at risk of failing to complete a meaningful education program. This funding will include hands on tutoring to assist these young adults in progressing through their plan and achieving their goals.

NURSING INITIATIVE

Building on investments made in prior budgets, the Budget proposes \$9 million in additional ongoing funding and \$9 million in one-time current year funding to support additional nursing instructional capacity in community colleges. The CCC, with 74 existing nursing programs, are the leaders in training and educating the nursing workforce. Recognizing their mission and capacity to provide additional training and services to meet the documented clinical nursing shortage, the Budget proposes ongoing funding for additional services to reduce enrollment attrition (\$5.2 million) and for incentives to increase costly science course sections that are prerequisite

to enrolling in nursing programs (\$3.8 million). \$9 million in one-time funding is proposed for start up costs for five new nursing programs (\$5 million) and development of four new regional clinical simulation laboratories (\$4 million).

SCIENCE AND MATH TEACHER INITIATIVE

To help address California's critical shortage of highly trained teachers in the subjects of science and math, the Governor's Budget proposes an increase of \$2 million for a total of \$2.7 million for the CSU to support the third year of the Science and Math Teacher Initiative. This funding will enable the CSU to establish three regional science and math teacher recruitment centers and continue to expand its campus programs in order to double the number of science and math teachers trained annually. When combined with the \$1.1 million that is continued in the UC budget, this initiative proposes a total of \$3.8 million for 2007-08. The Budget also proposes an increase of 600 education loan assumption warrants in the CSAC budget to provide incentives for promising students to enter the teaching field in these critical shortage areas.

OTHER POLICY PROPOSALS

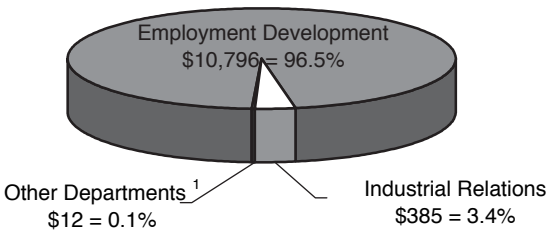
For CCC, the Budget also includes: \$1 million in one-time current year funds for the California Partnership for Achieving Student Success Program (CalPASS), a project that helps all segments determine the efficacy of curriculum for articulated course sequences between segments to ensure successful student outcomes; and \$350,000 in ongoing funds for Fiscal Crisis and Management Team (FCMAT) assistance to CCCs to ensure resources are available to respond to financial instability indicators or other signs of trouble before they develop into insolvency such as recently occurred at the Compton CCD.

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LABOR AND WORKFORCE DEVELOPMENT

The 2007-08 Governor's Budget proposes total funding of \$11.2 billion to support and protect California workers and employers through workforce development, labor law enforcement, and benefit payment and adjudication. The amount proposed is a decrease of \$310.7 million from the revised 2006-07 Budget. Funding totals by department are shown in Figure LWD-01.

Figure LWD-01
**Labor and Workforce Development
 Agency 2007-08 Expenditures**
 (Dollars in Millions)



¹ Other Departments include: Secretary for Labor and Workforce Development (\$2.2), California Workforce Investment Board (\$4.5), and Agricultural Labor Relations Board (\$5.1).

Change Table LWD-01 illustrates the major changes to Labor and Workforce Development Agency (LWDA) spending proposed in the Governor’s Budget.

Change Table LWD-01						
Labor and Workforce Development Agency - Changes by Broad Categories						
	2006-07			2007-08		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
2006 Budget Act	\$99,210	\$10,946,016	12,163.0	\$99,210	\$10,946,016	12,163.0
Workload Adjustments						
Automated Collection Enhancement System (ACES)	--	--	--	2,511	249	--
EDD October Revise - Local Assistance	--	481,935	--	--	200,554	--
EDD October Revise - State Operations	--	-5,536	-179.8	--	-19,448	-162.2
Electronic Adjudication Management System (EAMS)	--	-6,679	--	--	19,077	--
Tax Sharing Ratio Change	--	--	--	13,500	-13,500	--
Employee Compensation/Retirement	5,305	25,192	--	5,060	22,995	--
Expiring Programs or Positions	--	--	--	--	-2,152	-35.2
One-Time Cost Reductions	--	--	--	-2,728	-15,000	--
Full-Year Cost of New Programs	--	--	--	--	244	--
Other Workload Adjustments	2	-41,893	-220.3	156	-38,708	-157.8
Totals, Workload Adjustments	\$5,307	\$453,019	-400.1	\$18,499	\$154,311	-355.2
Policy Adjustments						
Remove Contingent Fund from the Job Services Program	--	--	--	--	-27,060	-271.0
Other Policy Adjustments	--	--	--	--	1,852	15.2
Totals, Policy Adjustments	\$0	\$0	--	\$0	-\$25,208	-255.8
Total Adjustments	\$5,307	\$453,019	-400.1	\$18,499	\$129,103	-611.0
Governor's Budget	\$104,517	\$11,399,035	11,762.9	\$117,709	\$11,075,119	11,552.0

* Dollars in Thousands

Specifically, the LWDA includes notable adjustments for the following departments:

EMPLOYMENT DEVELOPMENT DEPARTMENT

Tax Sharing Ratio Change—The Governor’s Budget includes \$13.5 million General Fund and a corresponding decrease of \$13.5 million (\$2.4 million from the Employment Training Fund and \$11.1 million from the Unemployment Compensation Disability Fund) to properly align the Employment

Development Department's (EDD) costs for the collection of various employment taxes with each fund paying its "fair share" of the shared tax function. The EDD is responsible for collecting Unemployment Insurance, Disability Insurance, General Fund (through the Personal Income Tax), and the Employment Training Tax.

October Revise—The Governor's Budget includes an increase of \$200.6 million (various special funds) in benefit payments and a decrease of \$19.4 million and 162.2 positions to reflect anticipated workload for various employment assistance payment programs that EDD administers. These numbers reflect the net total local assistance dollars that are identified in the 2006 October Revise, which are Unemployment Insurance, Disability Insurance, School Employees Fund programs, and the available Workforce Investment Act funds. Including the School Employees Fund benefits and excluding the WIA distribution to local agencies, the total benefit amount would be \$206.9 million.

Automated Collection Enhancement System (ACES)—The Governor's Budget provides \$2.8 million (\$2.5 million General Fund) to continue the ACES, which will enhance the department's ability to collect state payroll taxes, including the personal income tax, by modernizing and automating its revenue collection process.

Contingent Fund Transfer to the General Fund—The Governor's Budget eliminates \$27.1 million of Contingent Fund funding for the EDD Job Services Program, and makes a corresponding transfer of these funds to the General Fund. There is \$153 million federal funds remaining to support a variety of services designed to facilitate a match

between employers and job seekers, and for a variety of case-managed programs that provide specialized services to job seekers needing extra assistance, such as welfare recipients, parolees, veterans, youth, disabled and long-term unemployed individuals. This funding will provide services to more than one million job seekers and 53,000 employers in 2007-08. Additional services similar to those provided through the EDD's Job Services Program are provided to certain specific client groups through the state's CalWORKS Program.

DEPARTMENT OF INDUSTRIAL RELATIONS

Electronic Adjudication Management System—

The Governor's Budget provides \$19.1 million (Workers' Compensation Administration Revolving Fund), which includes a reappropriation of \$6.7 million from 2006-07, to support the revised project costs as reflected in the Electronic Adjudication Management System Special Project Report. These funds are necessary to continue implementation of the new case management and automated calendaring system for the Division of Workers' Compensation. The new system will improve the operation and management of Division programs that protect California's workforce by improving program access, streamlining existing processes, and reducing costs resulting from delays in the current process.

Elevator Plan Checking Unit—The Governor's Budget includes \$1.9 million (Elevator Safety Account) and 15.2 positions to approve permits for elevator plans prior to construction, as required by the law. The elevator plan review process will ensure the safety of the general public and employees who use the elevators as well as the workers

responsible for servicing the elevators. The review of plans prior to building construction will contribute to a more effective approval process for elevator operation permits.

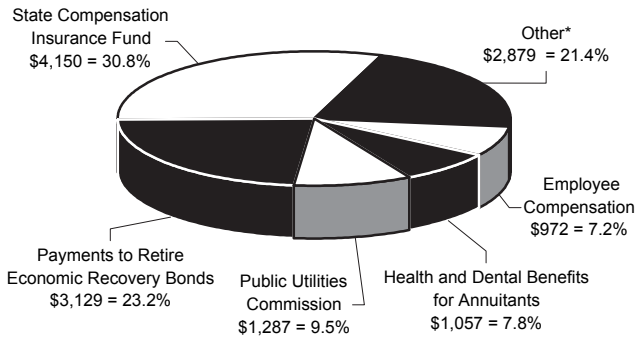
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GENERAL GOVERNMENT

The General Government Section of the Governor's Budget Summary includes multiple departments, commissions, and offices responsible for oversight and specific activities not included in other areas. The Budget includes \$13.5 billion (\$3.1 billion General Fund and \$10.4 billion other funds), and reflects an increase of \$1.5 billion (\$870.5 million General Fund) or 12.3 percent over the revised 2006-07 Budget.

The level of funding proposed for General Government is shown in Figure GEN-01.

Figure GEN-01
**Proposed General Government Expenditures
for 2007-08 All Funds
(Dollars in Millions)**



* To see the departments that comprise the Other portion, please see the General Government section of the Proposed Budget Detail.

Change Table GEN-01 illustrates the major changes proposed for General Government spending in the Governor’s Budget.

Specifically, the General Government budget includes the following notable adjustments:

PUBLIC UTILITIES COMMISSION

California Solar Initiative—The California Solar Initiative will provide \$3.4 billion in incentives for solar energy installations over the next 10 years, which is sufficient to provide 3,000 megawatts of solar energy and reduce annual carbon dioxide emissions by 3 million tons. The Budget proposes \$2,460,000 and 2.9 positions for the Public Utilities Commission (PUC) to implement this initiative. This proposal will provide necessary staff for PUC proceedings, enable the PUC to develop a pricing structure that provides an incentive to

Change Table GEN-01

General Government - Changes by Broad Categories

	2006-07			2007-08		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
2006 Budget Act	\$2,292,118	\$10,289,236	15,762.9	\$1,986,638	\$9,905,626	15,762.9
Workload Adjustments						
AB 2987: Video Competition Act of 2006	--	--	--	--	950	10.3
AB 32: Global Warming Solutions	--	--	--	--	1,272	2.9
GLAVC Veterans Homes - Initial Construction and Pre-Activation Phase	--	--	--	995	--	7.6
Military Funeral Honors Program	--	--	--	1,754	--	22.1
Office of Technology Review, Oversight and Security Reduction	--	--	--	-3,258	--	-27.7
SB 1: California Solar Initiative	--	--	--	--	2,460	2.9
Employee Compensation/Retirement	13,795	13,079	--	12,728	12,464	--
Expiring Programs or Positions	--	-2,870	-1.9	-394	-13,899	-15.4
One-Time Cost Reductions	--	--	--	-13,630	-23,813	--
Full-Year Cost of New Programs	--	--	--	463	99	--
Other Workload Adjustments	-101,295	-607,694	-1,483.1	520,225	460,920	-2,655.3
Totals, Workload Adjustments	-\$87,500	-\$597,485	-1,485.0	\$518,883	\$440,453	-2,652.6
Policy Adjustments						
Economic Recovery Bonds: Pre-Payment	--	--	--	595,000	--	--
Enterprise Wide - Veterans Home Information System	--	--	--	10,340	--	20.9
Financial Information System for California (FISCal--formerly BIS)	--	--	--	35,657	--	148.4
Savings per Control Section 4.05	--	--	--	-100,000	--	--
Tuition Assistance Program	--	--	--	1,669	--	--
Veterans Home at Barstow - 40 Skilled Nursing Facility beds	--	--	--	2,076	245	18.0
Other Policy Adjustments	--	--	--	22,191	5,526	36.2
Totals, Policy Adjustments	\$0	\$0	--	\$566,933	\$5,771	223.5
Infrastructure Adjustments	\$1,865	\$96,228	--	\$4,508	\$45,742	--
Total Adjustments	-\$85,635	-\$501,257	-1,485.0	\$1,090,324	\$491,966	-2,429.1
Governor's Budget	\$2,206,483	\$9,787,979	14,277.9	\$3,076,962	\$10,397,592	13,333.8

* Dollars in Thousands

generate solar energy during peak-demand hours, and fund an independent program evaluation.

Video Competition Act—The Digital Infrastructure and Video Competition Act of 2006 (AB 2987) appoints the PUC as the sole video franchising authority in the state. This streamlined application process will improve advanced video services and lower prices through increased competition. The Budget proposes \$950,000 and 10.3 positions to implement the Video Competition Act. These resources will enable the PUC

to ensure that video service is non-discriminatory, review applications and issue state franchises, and report annually to the Legislature.

DEPARTMENT OF FOOD AND AGRICULTURE

Emergence Tower System for Fruit Fly Rearing

Efficiency—The Governor’s Budget includes \$658,000 General Fund to purchase and implement a tower system for rearing Mediterranean Fruit Fly (Medfly) and other Fruit Flies for the Preventive Release Program. This new system will increase the number of sterile flies produced for release by 50 percent while requiring less space.

Continuation of the All Vehicle Inspection Pilot Program—

The Governor’s Budget includes \$407,000 and 4.7 positions to continue the All Vehicle Inspection Pilot Program located at the Inspection Station in Needles, California for a second year.

FAIR POLITICAL PRACTICES COMMISSION

Funding For Workload Growth—The Governor’s Budget includes \$604,000 General Fund and 4.7 positions to support workload growth. Over several years, the scope of work performed by the Fair Political Practices Commission (FPPC) and the magnitude of legislation impacting FPPC workload has resulted in significant backlogs in investigations, responses to inquiries, issuance of legal opinions, and other activities.

DEPARTMENT OF FINANCE

Statewide Integrated Financial Information System for California (FI\$Cal)—The Governor’s Budget includes \$35.7 million and 225.8 positions in several departments to support the initial system implementation activities associated with the Financial Information System for California (FI\$Cal) Project. Through a partnership of the Department of Finance, the State Controller’s Office, the State Treasurer’s Office and the Department of General Services, this “Next Generation” project will prepare the state systems and workforce to function in an integrated financial management system environment. The FI\$Cal Project will also play a major role in the state’s succession planning for much of the financial management workforce. This effort will encompass the management of resources and dollars in the areas of budgeting, accounting, procurement, cash management, financial management, financial reporting, cost accounting, asset management, project accounting, grant management and human resources management.

Transfer of OTROS—The Office of Technology Review, Oversight, and Security (OTROS) will be moving from the Department of Finance to the Office of the Chief Information Officer (OCIO) and the State and Consumer Services Agency. These moves are precipitated by the recent enactment of Chapter 533, Statutes of 2006, which created the OCIO. Under the direction of the State Chief Information Officer, twenty-six positions will continue project oversight and review activities previously provided by the Department of Finance. The remaining three positions will be part of the Office of Information Security and Protection in the State and Consumer Services Agency and will focus on security issues, risk issues and breaches.

MILITARY DEPARTMENT

Tuition Assistance Program—The Governor's Budget includes \$1.7 million General Fund to establish a tuition assistance program for members of the California National Guard. The program will be focused on improving recruiting and retention rates, thereby providing a more experienced, effective reserve force.

Military Funeral Honors—The Governor's Budget includes \$1.8 million General Fund and 22.1 positions to provide the additional resources needed to meet increased demand for military funeral honors ceremonies in California.

DEPARTMENT OF VETERANS' AFFAIRS

Barstow 40 Skilled Nursing Facility Beds—The Governor's Budget includes \$2.3 million (\$2.1 million General Fund and \$245,000 federal and other funds) and 18 positions to reopen 40 Skilled Nursing Facility (SNF) beds at the Barstow Veterans Home. The opening of the SNF unit will provide needed care for Veterans and allow for greater utilization of the Barstow Home.

Enterprise-Wide Information System—The Governor's Budget includes \$10.3 million General Fund (\$7 million one-time) and 20.9 positions to procure and implement a statewide Veterans Home Information System. This system will be implemented in existing homes and homes proposed for construction. The new system will improve health care tracking and enhance the continuum of care provided to veterans.

Greater Los Angeles and Ventura County Veterans Homes Construction—The Governor's Budget includes \$995,000 General Fund and 7.6 positions for the initial construction and pre-activation phases of the Greater Los Angeles and Ventura County Veterans Homes project. At completion, the new facilities will bring Adult Day Health Care, assisted living and Skilled Nursing Facility care to the greater Los Angeles area.

GENERAL FUND UNALLOCATED REDUCTIONS

The Governor's Budget proposes to reduce General Fund spending by a total of \$100 million in 2007-08.

The Administration has been successful in meeting the unallocated reduction saving targets in the last few years. We have achieved General Fund spending reductions of \$100 million in 2006-07 as required by Control Section 4.05 of the 2006 Budget Act. Details of these reductions have been reported to the Legislature.

Using the same approach, the Department of Finance will continue to work with Agency Secretaries and other cabinet members to achieve one-time General Fund savings of \$100 million in 2007-08.

ECONOMIC RECOVERY BOND PRE-PAYMENT

The Governor's Budget proposes an additional \$595 million General Fund to accelerate the payment of the Economic Recovery Bonds (ERB). Combined with modest changes to other revenues dedicated to the repayment of the ERBs, it is

now estimated that this additional pre-payment will enable the ERBs to be effectively paid off by August 1, 2009, five months ahead of the previous projection. In addition, it is estimated that the pre-payment of the ERBs will result in almost \$90.9 million in simple interest savings and make available an additional \$701 million General Fund in 2009-10 that would have otherwise been used to reimburse local governments for the Triple Flip.

STATEWIDE ISSUES

The Statewide Issues Section of the Budget Summary includes issues that affect multiple departments in various major program areas.

PUBLIC EMPLOYEE POST-EMPLOYMENT BENEFITS COMMISSION

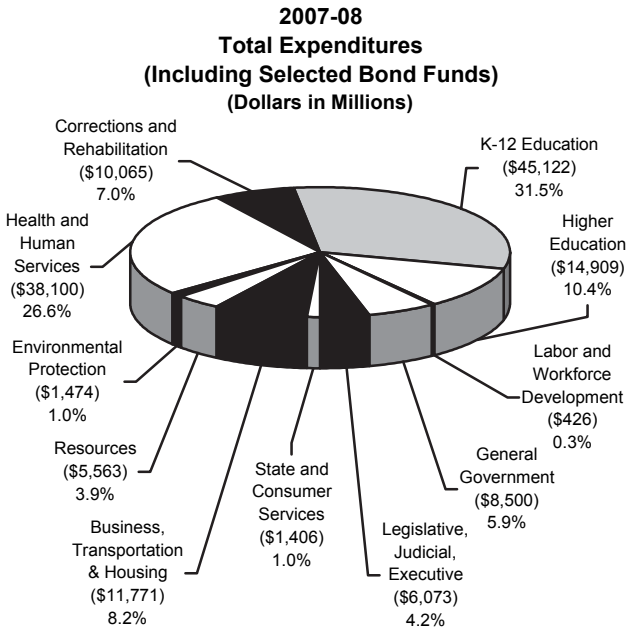
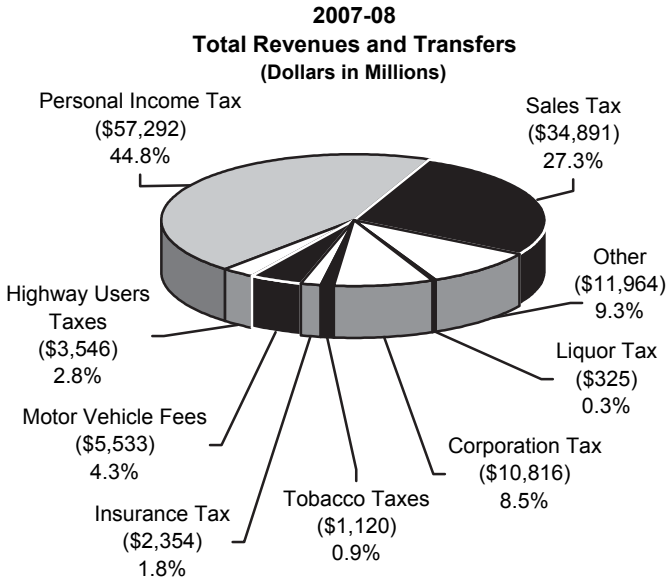
The Governor recently issued Executive Order S-25-06 to create the Public Employee Post-Employment Benefits Commission to examine what is owed in unfunded retirement benefits, both pension benefits and non-pension benefits such as health benefits, and recommend how best to meet those obligations. The commission includes twelve members: six, including the chairperson, appointed by the Governor, three appointed by the Speaker of the Assembly, and three appointed by the Senate President Pro Tem. By January 1, 2008, the Commission will report its findings and recommendations to the Governor and to the Legislature. With the report from the Commission, all governments in California will be better positioned to develop strategies to deal with these costs.

STATE CIVIL SERVICE HUMAN RESOURCES REFORM

The State Personnel Board and the Department of Personnel Administration will be working together to create a comprehensive plan to significantly reduce the number of classifications, and reform how the state brings new employees into civil service, how they are compensated, and how they can promote once they are working for the state. To facilitate this endeavor, a task force has been assembled under the direction of the Department of Personnel Administration to create a strategic plan for comprehensive reform of state civil service. The task force will include representatives from the Department of Personnel Administration, the State Personnel Board and various other departments with human resources and labor relations expertise.

SUMMARY CHARTS

This section provides various statewide budget charts and tables.

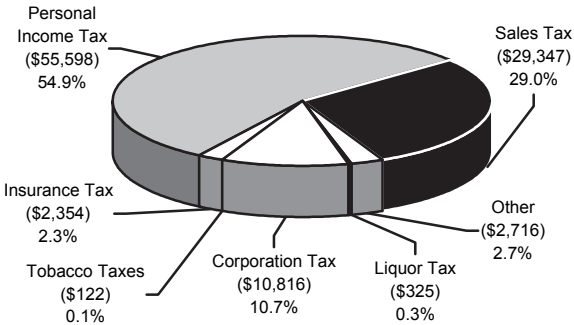


**2007-08 Governor's Budget
General Fund Budget Summary
(Dollars in Millions)**

	2006-07	2007-08
Prior Year Balance	\$10,816	\$3,198
Revenues and Transfers	\$94,519	\$101,278 ^{1/}
Total Resources Available	\$105,335	\$104,476
Non-Proposition 98 Expenditures	\$61,325	\$61,951 ^{1/}
Proposition 98 Expenditures	\$40,812	\$41,190
Total Expenditures	\$102,137	\$103,141
Fund Balance	\$3,198	\$1,335
Reserve for Liquidation of Encumbrances	\$745	\$745
Special Fund for Economic Uncertainties	\$2,453	\$590
Budget Stabilization Account	\$472	\$1,495
Total Available Reserve	\$2,925	\$2,085

^{1/} A total of \$2,046 million will be transferred to the Budget Stabilization Account pursuant to Proposition 58. Half will remain in the Account for future purposes (displayed as a reduction in revenues). The other half will be further transferred for the purpose of early retirement of Economic Recovery Bonds (displayed as an increase in expenditures).

**2007-08
General Fund Revenues and Transfers
(Dollars in Millions)**

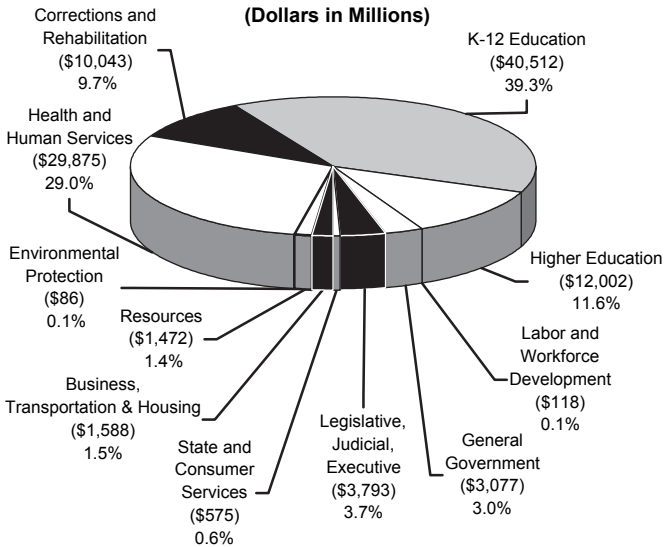


2007-08 Revenue Sources
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2006-07
Personal Income Tax	\$55,598	\$1,694	\$57,292	\$3,722
Sales Tax	29,347	5,544	34,891	1,910
Corporation Tax	10,816	-	10,816	505
Highway Users Taxes	-	3,546	3,546	60
Motor Vehicle Fees	26	5,507	5,533	279
Insurance Tax	2,354	-	2,354	134
Liquor Tax	325	-	325	4
Tobacco Taxes	122	998	1,120	11
Other	2,690	9,274	11,964	1,523
Total	\$101,278	\$26,563	\$127,841	\$8,148

Note: Numbers may not add due to rounding.

2007-08
General Fund Expenditures
(Dollars in Millions)



General Fund Expenditures by Agency
(Dollars in Millions)

	<u>2006-07</u>	<u>2007-08</u>	<u>Change</u>	<u>%</u>
Legislative, Judicial, Executive	\$3,505	\$3,793	\$288	8.2%
State and Consumer Services	602	575	-27	-4.5%
Business, Transportation & Housing	3,026	1,588	-1,438	-47.5%
Resources	2,161	1,472	-689	-31.9%
Environmental Protection	92	86	-6	-6.5%
Health and Human Services	29,820	29,875	55	0.2%
Corrections and Rehabilitation	9,236	10,043	807	8.7%
K-12 Education	40,016	40,512	496	1.2%
Higher Education	11,368	12,002	634	5.6%
Labor and Workforce Development	105	118	13	12.4%
General Government	<u>2,206</u>	<u>3,077</u>	<u>871</u>	<u>39.5%</u>
Total	\$102,137	\$103,141	\$1,004	1.0%

Note: Numbers may not add due to rounding.

2007-08 Total Expenditures by Agency
(Dollars in Millions)

	<u>General Fund</u>	<u>Special Funds</u>	<u>Bond Funds</u>	<u>Totals</u>
Legislative, Judicial, Executive	\$3,793	\$1,995	\$285	\$6,073
State and Consumer Services	575	810	21	1,406
Business, Transportation & Housing	1,588	7,861	2,322	11,771
Resources	1,472	2,061	2,030	5,563
Environmental Protection	86	1,037	351	1,474
Health and Human Services	29,875	8,114	111	38,100
Corrections and Rehabilitation	10,043	22	-	10,065
K-12 Education	40,512	620	3,990	45,122
Higher Education	12,002	36	2,871	14,909
Labor and Workforce Development	118	308	-	426
General Government	<u>3,077</u>	<u>4,821</u>	<u>602</u>	<u>8,500</u>
Total	\$103,141	\$27,685	\$12,583	\$143,409

Note: Numbers may not add due to rounding.

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